INVESTIGATION OF CHALLENGES OF IMPLEMENTING PERFORMANCE CONTRACTS IN KENYA REVENUE AUTHORITY, SOUTHERN REGION.

BY

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D53/OL/3706/04

RESEARCH SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (HUMAN RESOURCES MANAGEMENT), SCHOOL OF BUSINESS, KENYATTA UNIVERSITY

APRIL 2009

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Investigation of challenges of
DECLARATION

This Research is my original work and has not been presented for any award or degree in any other University.

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DEDICATION

This work is dedicated to my loving children
ACKNOWLEDGEMENTS

First and foremost, I wish to recognize and give praise to my almighty God for taking good care of me health wise during all the period of writing and compiling this proposal.

The extensive guidance and help which I got from my friends and colleagues towards writing this proposal is highly appreciated. This proposal grows out of coaching, learning materials from masters in Business administration and references from various website and the contents reflect its origin.

I do acknowledge the work and academic guidance accorded to me by my supervisor Dr. Gorretty A.O. Ofafa whose input enabled me to follow and write up a proper proposal.

My appreciation also goes to L.M Malinda (Mrs.) the senior deputy commission, human resource management department of KRA and the entire management as a whole for allowing me to conduct a research within the authority. Further to this, I want to thank Mrs. Beatrice Sapuro, the senior assistant commissioner KRA – HR – Mombasa for his good will and gesture of providing me with the figures of population distribution of the staff in Mombasa – KRA office from which I shall get my target population.

My appreciation finally goes to my wife, children and other family members for their patience and assistance given during this period.
ABSTRACT

Performance contracting in Kenya was relatively new concept which had been implemented for a period of less than five years ago. The government of Kenya, sought to follow in the footsteps of the private sector, introduced the contracts in 2003. It aimed at enhancing the performance of the civil servants through improved accountability and productivity. The Kenya Revenue Authority (KRA), being a part of the GoK, also had to implement these performance contracts.

The implementation of the contracts was nonetheless inhibited by various hitches and challenges which the study sought to unveil. The study aimed at identifying the extent to which the employees' attitudes at KRA, the performance measurement instruments, the external environment, the training and skills of the staff as well as the working conditions challenged the implementation of the performance contracts at the Authority.

Chapter two reviewed by Kaplan and Norton, Okunishi, Pfeiffer, Sokoya amongst others who had researched on the performance contracts and its related challenges. Literature gaps as far as local content on performance contracts was lacking or scarce.

Descriptive research design was used for the study as it seeks to have the respondents to describe factors that challenge the implementation of performance contracts at the Kenya Revenue Authority. The study targeted 274 managers of Kenya Revenue Authority at the southern region stratified according to their levels. A sample size of 42% was taken to achieve 116 respondents. (Cochran, 1963; and Israel, 1992). 94 respondents returned their questionnaires making it an 81% response rate.

Simple random sampling using predetermined intervals was used to identify the respondents. Primary data was obtained by use of self administered structured questionnaires distributed to the respondents and collected after two days; analysis was then conducted using descriptive statistics. Statistical Package for Social Scientists (SPSS) was used to aid in the analysis. The data was presented using pie charts, bar graphs and frequency tables.

The findings were that KRA was seriously challenged by working conditions, employees' attitudes, measurement instrument and external environment. The only factor that KRA was performing minutely well in regard to performance contract was Training.
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OPERATIONAL DEFINITION OF TERMS

Attitudes
A complex mental state involving beliefs and feelings and values and dispositions to act in certain ways; "he had the attitude that work was fun"

Balance Score Card
A performance measurement tool used mostly by private firms which link organizational goals to individual employee’s goals.

Job Satisfaction
The sense of fulfillment and pride felt by people who enjoy their work and do it well. Various factors influence job satisfaction, and our understanding of the significance of these stems in part from Herzberg. He called elements such as remuneration, working relationships, status, and job security "hygiene factors" because they concern the context in which somebody works. Hygiene factors do not in themselves promote job satisfaction, but serve primarily to prevent job dissatisfaction. Motivators contribute to job satisfaction and include achievement, recognition, the work itself, responsibility, advancement, and growth. An absence of job satisfaction can lead to poor motivation, stress, absenteeism, and high labor turnover.

Motivation
It is the push of the mental forces to accomplish an action. Unsatisfied needs motivate. On the biological level basic human needs of food, shelter and survival are powerful motivators. On the psychological level people need to be understood, affirmed, validated and appreciated. On the business level motivation occurs when people perceive a clear business reason for pursuing a transfer of knowledge or practices.

Performance
The act of performing; of doing something successfully; using knowledge as distinguished from merely possessing it; "they criticized his performance as mayor"; "experience generally improves performance"
Performance contracts Refer to an approach of performance measurement that includes contract plans, performance indicators, signals systems, performance agreements, memoranda of understanding, etc. It is a negotiated agreement between two or more parties, and is usually an integral part of performance (Leroy, 1991).

Rewards Reward is a way of the employer give back to the employee for the work done. It can take many forms, e.g. merit increases, promotions, certificates of appreciation, letters of commendation. For instance The performance review process usually adds information about rewarding the employee(s) if performance met or exceeded standards.
<table>
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<td>DTD</td>
<td>Domestic Tax Department</td>
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<td>Human Resource Management</td>
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<tr>
<td>ICT</td>
<td>Information Communication and Technology</td>
</tr>
<tr>
<td>I &amp; E</td>
<td>Investigation and Enforcement</td>
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<td>KRA</td>
<td>Kenya Revenue Authority</td>
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<td>M &amp; C</td>
<td>Marketing and communication</td>
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<td>MBO</td>
<td>Management by Objective</td>
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<td>NARC</td>
<td>National Alliance of Rainbow Coalition</td>
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<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<td>PCs</td>
<td>Performance Contracts</td>
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<td>SOEs</td>
<td>State Owned Enterprises</td>
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<td>IDRC</td>
<td>International Development Research Centre</td>
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CHAPTER ONE: INTRODUCTION

1.0 Background information

The definition of Performance Contracts itself had been a subject of considerable debate among the scholars and human resource practitioners. Performance Contracting was a branch of management science referred to as Management Control Systems. A Performance contract was freely negotiated performance agreement between Government, organization and individuals on one hand and the agency itself (Kenya, Sensitization Training Manual, 2004). It was an agreement between two parties that clearly specify their mutual performance obligations, and the agency itself.

OECD (1999) defined Performance Contract as a range of management instruments used to define responsibility and expectations between parties to achieve mutually agreeable results. While (Smith, 1999) argued that a common definition of performance contracting could be found, there were a considerable variety of uses and forms for quasi-contractual arrangements.

Performance contracts (PCs) originated in France in the late 1960s to improve performance of State Owned Enterprises (SOEs). It was named “Contract Plan” in which an agreement regarding the performance was established between the government and the SOE based on a five year work plan. However, due to lack of indicators and measurements, it was not possible to measure the performance of SOEs. Whenever the plan was not achieved, the contracts was modified and reprogrammed. Performance contracts are common phenomena in the current business world, (OECD, 1999; Dlamini, 2001).

In mid 1980s, Korea applied the contractual approach and developed the “signal system, through incorporating the collection of goals and incentives that would guide managers and administrators. In it, the national goals were translated into explicit and quantifiable targets in
performance criteria. The inclusion of performance measurements and indicators enabled the system a useful instrument to scale the performance of SOEs, (Okunishi, 2001). Since then, PCs have evolved and been adopted by a number of countries in different forms and names. Of recent, PCs are widespread in both developed and developing countries such as Kenya. Performance contracting has been used in about 30 developing countries in the last fifteen years.

In Asia, the performance contract concept had been used in Bangladesh, China, India, Korea, Pakistan and Sri Lanka. In Africa, performance contract had been used in selected enterprises in Benin, Burundi, Cameroon, Cape Verde, Congo, Cote d’Ivoire, Gabon, the Gambia, Ghana, Guinea, Madagascar, Mali, Mauritania, Morocco, Niger, Senegal, Togo, Tunisia and Zaire. In Latin America, they have been used at different times in Argentina, Brazil, Bolivia, Chile, Colombo, Mexico, Uruguay and Venezuela. Others include Malaysia, United Kingdom, U.S.A, Canada, Denmark and Finland among others.

The PCs varied in terms of duration from one year to five years. The system had focus on the prevalent operating performance, on performance related pay while others did not. Though it had been traditionally used for SOEs, some countries like Kenya had applied the idea of PCs to their public institutions and parastatals such as Kenya Revenue Authority, being a government agency in revenue collection. The contents in performance contracts normally were: The way that performance of each goal would be measured; Performance targets; Physical and financial performance indicators; Management incentives; Financing activities; The autonomy of management and defined limits; Information system (accounting, reporting and audit) to establish and enforce accountability through the contract; Procedures for variation of the contracts and settlement of disputes, (OECD, 1999).
PCs varied according to the level of comprehensiveness in contracts. Some contracts defined in great detail the rate of each player. For example, KRA Board Members (including Minister of Finance) signed the performance contract with the Commissioner General which was cascaded down to the level of Assistant Commissioner and even Principal Revenue Officers. However, the level of coverage varied from grade to grade in terms of output, efficiency, effectiveness and service quality indicators with criteria weight and values assigned to them, (Kobia and Nura, 2006).

Some contracts were much simpler with little mention of the responsibility of each player and a limited range of indicators with single targets. PCs were normally reviewed at the end of the stipulated time between parties that agreed to respect the terms noted in the contract i.e. the performance targets set out in the contract. It was therefore believed that PCs were useful performance measurement tool with a dual function of fostering efficiency of service delivery and improving accountability. For that reason, many countries have adopted PCs systems for their public sector reform which main objectives were to make public sectors more efficient, transparent and accountable, (Dlamini, 2001). Thus, managing human resource and ensuring efficiency and effectiveness in meeting the strategy envisaged in an organization’s vision, it was a challenging task for any human resource manager. The cost factor associated with efficiency that human resource manager had to justify their budget at the end of a financial year had to have some deliverables showing effective performance of human resources employed in that particular year. The current trend to peg human resource performance to remuneration had increasingly becoming widely acceptable in Kenya, (Kobia and Nura, 2006).

1.1 **Kenya Revenue Authority (KRA)**

Kenya Revenue Authority (KRA) is a public administrative agency that serves as the sole tax collector in Kenya. Tax collection is a very crucial role because it provides the government
with revenues for implementation of various projects to fulfill social and economic needs of its citizen, (GOK, 2001). It was vital that the government through KRA, set measures that would ensure collection of enough revenues that would meet the demands at that particular time. The collection of tax was faced with different challenges like; tax evasion, unpopular tax systems, corruption, illiteracy by tax-payers and incompetence on KRA staff. Most of the challenges were human resource based and could be handled by a tactful, productive and human resource manager that was committed to improvement and being professionals in their endeavor of fostering increased revenue collections to the satisfaction of all stakeholders.

In its bid to increase productivity KRA was amongst the many companies using performance contracting. The system as expected was encountered with some degree of resistance from the incumbents owing to several factors as threat of job security, break of social structures, economic losses, breach of status quo, bringing to service some underlying weaknesses of staff, the feeling of ill-motive actions e.g. biased performance evaluations perhaps aimed at eliminating or victimizing some staff. These and others might have probably triggered some resistance from the incumbents. The study intended to validate the need to evaluate whether the performance – remuneration tool as applied by Kenya Revenue Authority (KRA) was perceived by the recipients to meeting the employer, employee objectives and to find out reasons for its easy acceptance or stiff resistance at that point in time.

Armstrong (2006) explained that, human resource was the component that propels an organization towards achieving its different goals. The organization therefore needed to empower the human resource to make them motivated towards improvement of performance. Empowerment made the employees find meaning in their work, feel competent, creating sense of determination and making them feel that they had an impact on important issues of the organization, (Pinaki, 2000).
Performance remuneration through balance scorecard was an emerging concept in human resource management especially in developing countries. Studies had shown that it had worked for most organizations, (Kaplan and Norton, 2001; Pfeiffer, 2003).

These studies argued that if Balance Score Card synonymous to Performance Contract was well structured then individual, group and ultimately organizational goals were going to be met.

Companies were starting to adopt that style while its successes and failures were yet to be significantly measured by organizations in Kenya. Bani (2005) argued that KRA as a government agency might have perhaps had the potential to surpass the prevalent level of tax collection but it might have been hampered by the uncooperative aspect from workers who had different feelings on the new performance contracts systems.

In Kenya companies like Telkom (K) Ltd, Standard Chartered Bank Ltd, Barclays Bank Ltd and KRA had adopted the balance scorecard. The study intended to study how the performance remuneration was implemented in KRA and whether it was meeting its objectives.

In their search for improved performance, public administrative agencies implement different strategies that allow them to increase efficiency and effectiveness. Foremost amongst the steps taken were the modernization of human resources management and, in particular, the introduction of performance-related pay systems, which had been in place in the various Organization for Economic Cooperation and Development (OECD) countries for over 10 years, (OECD, 1999). Several publications in recent years (Cattell, 1999; Dlamini, 2001; Kobia and Nura, 2006) showed, in particular, that pay was used as a lever for a change in culture and public management style. However, the real impact of such systems remained controversial. That was because the conditions in which they were implemented were not ideal, particularly within public organizations. In addition to the lack of financial resources
and the often insufficient training given to the managers applying these methods, it seemed that performance-related pay is suffering from a new problem that could hinder the anticipated effects for some time, namely the emergence of the 'individual versus team' paradox. Management literature was placing increasing emphasis on the importance of teams in the success and performance of organizations, whilst human resources management (HRM) practices within public organizations and, in particular, those linked to pay were becoming increasingly individualistic, (Emery and Giauque, 2001).

1.2 Statement of the Problem

Arising from administrative changes and accompanying challenges of KRA especially with the need for efficient and effective tax administrative had underlying challenges that ranges from both human acceptability and logistical introduction of the new performance contract system. The system as expected was encountered with some degree of resistance from the incumbents owing to several factors as a threat of job security, break of social structures, economic losses, breach of status quo, bringing to service some underlying weaknesses of staff, the feeling of ill-motive actions e.g. biased performance evaluations perhaps aimed at eliminating or victimizing some staff.

The research was directed towards seeking to grasp the attitudes of KRA staff towards the system among other challenges and ultimately seeking to suggest the methodology of minimizing the resistance expected by inculcating positive attitudes towards systems. Many staff members had expressed concerns and complaints on the bases of inadequate training to meet the targets, the difficulty of measuring performance objectively across the board as well as poor working conditions essential for the completion and achievement of the set targets. However no scientific research had been done to establish the status quo on the same. The attitude of the staff too had provided a serious challenge to the full implementation of the contracts for all the staff within the organization. Thus, the assessment of workers attitudes
towards the performance contracts, the level of training among the employees who sign the contracts, the availability of the necessary equipment and the associated difficulty in measuring the level of performance for the staff objectively. Change management and introduction of any new business idea was a difficult task especially if it touched on the pockets of the human resources. The research therefore intends to investigate the challenges that the organization faced in its process of implementing the performance contracts and make policy recommendations over the same.

1.3 Research Objectives

1.3.1 General Objective

The general objective of the study was to investigate the challenges faced in the implementation of performance contracts in Kenya Revenue Authority (KRA) Southern Region.

1.3.2 Specific objective

1. To investigate the extent to which attitudes of the staff at KRA was a challenge to the implementation of the performance contracts among the staff.

2. To investigate the effects of performance measurements instruments in the implementation of performance contracts at KRA.

3. To investigate the extent to which the external environment was a challenge to the implementation of the performance contracts at KRA.

4. To investigate whether the training and skills of the staff were a challenge to the implementation of the performance contracts at KRA.

5. To investigate if working conditions in the organization was a challenge to the implementation of the performance contracts within KRA.
1.4 Research Questions

The study was be guided by the following questions.

1. How was the attitude of the staff at KRA a challenge to the implementation of the performance contracts among the staff?

2. How was the performance measurement instrument a challenge to the implementation of performance contracts among the staff at KRA?

3. How was the external environment a challenge to the implementation of performance contracts among the staff at KRA?

4. How were staff training and skills a challenge to the implementation of performance contracts among the staff at KRA?

5. How was working conditions a challenge to the implementation of performance contracts among the staff at KRA?

1.5 Justification of the Study

The research would be significant in improving performance to all companies that were either planning, considering or had already adopted performance contracts. It would also be of importance to any human resource department, consulting firms, management and employees' attitudes and perceptions towards performance contracts. The KRA was also going to benefit by understanding flaws or strength in their change management and motivation level of their staff as far as performance contracts were concerned. Scholars would find the data useful for their future references.

The research would go along way in helping KRA staff have deeper understanding of the essence or significance or vitality of performance contract. It was paramount to note that the study would help instill confidence and enhance acceptability and responsibility on the part of individual staff members. Likewise the research was expected to affect the attitudes of KRA staff towards the system in inculcating favorable perceptions, values, and attitudes.
1.6 The Scope of the Study

The researcher carried out the study at the Kenya Revenue Authority but concentrated on the Southern region (Mombasa) which was considered a cosmopolitan region in regard to composition of staff and functions of the authority on the coast line. Southern region has a staff population of 550 people. (Source: KRA’s HR Mombasa)

1.7 Research Limitations

Budgetary constraints in terms of cash needed to carry out the research as seen from the Research Budget table in appendix IV. Time constraint in collecting raw data and analyzing the same and also carry out the normal duties in the office. Limited secondary data in Kenya as the concept of performance contract was fairly new in the country. The researcher however, tried to provide maximum resources in both monetary and time to avert these limitations. Researcher also used his networking skills to retrieve information from the companies that had adopted Performance Contracts in Kenya.

1.8 Chapter Summary

The chapter had given the background of the study and the reason why it was important to study Performance Contracts in Kenya. It had highlighted the objectives that the study intended to achieve and justified why the study was important to be carried at that point in time. The scope and possible limitations for the study were explained with the researcher highlighting possible ways he would avert the limitation.

The next chapter would focus on literature related to Performance Contracts. Theories, empirical data and other researchers conducted related to the topic would be discussed, critiqued or supported. Conceptual framework would be developed and problem gaps would then be extracted.
CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction

Various researchers such as Kaplan and Norton, Okunishi, Pfeiffer, Sokoya among others have come along way to contribute to the field of management and The had assisted in literature review and which also had a bearing towards performance contracts aspect while on the other hand the organizations aimed at meeting their corporate targets.

Thus, the following sub-headings were going to be discussed at length; performance contracts and what they entail, attitudes of staff in relation to performance contracts, performance measurements instruments, staff training and skills, working conditions, external environment and performance contracts, challenges, limits and conditions for success and literature gaps.

It also provides a conceptual framework, which would be adopted for the study.

2.1 Review of Related Literature

2.1.1 History of Performance Contracts

Performance Contract System originated in France in the late 1960s. It was later developed with great deal of elaboration in Pakistan and Korea and thereafter introduced to India, (OECD, 1997). It has been adopted in developing countries in Africa, including Nigeria, Gambia, Ghana and now Kenya.

The definition of Performance Contracts itself had been a subject of considerable debate among the scholars and human resource practitioners. Performance Contracting was a branch of management science referred to as Management Control Systems. A Performance contract was freely negotiated performance agreement between Government, organization and individuals on one hand and the agency itself, (Kenya, Sensitization Training Manual, 2004). It was an agreement between two parties that clearly specify their mutual performance obligations, and the agency itself.
OECD (1999) defines Performance Contract as a range of management instruments used to define responsibility and expectations between parties to achieve mutually agreeable results. While (Smith, 1999) argued that a common definition of performance contracting could be found, there were a considerable variety of uses and forms for quasi-contractual arrangements. In the paper performance contracting was used as a management tool to help public sector executives and policy makers to define responsibilities and expectations between the contracting parties to achieve common mutually agreed goals.

Performance Contracts originated from the perception that the performance of the Public Sector had been consistently falling below the expectations of the Public. Performance Contracting was part of broader Public sector reforms aimed at improving efficiency and effectiveness in the management of Public service. The problems that had inhibited the performance of government agencies were largely common and had been identified as excessive controls, multiplicity of principles, frequent political interference, poor management and outright mismanagement (RBM Guide, 2005). While several approaches had been used to address these challenges, it was hoped that performance contract would be an effective tool for managing productivity.

Governments all over the world viewed performance contracting as a useful vehicle for articulating clearer definitions of objectives and supporting new management monitoring, and control methods, while at the same time leaving day-to-day management to the managers themselves. It organized and defined tasks so management could perform them systematically, purposefully and with reasonable probability of achievement (DPM, 2004). According to Opiyo, (2006), Performance Contracts were based on the premise that what gets measured gets done; if you could not see and measure success, you could not reward it; if you could not recognize failure, you could not correct it and if you could demonstrate results, you
could win public support. The Government had adopted Performance Contracting in the Public Service in order to ensure that there was reduction or altogether elimination of reliance on exchequer funding for government agencies which were expected to generate revenue or make profit, as an objective basis for divesting loss making government agencies, it would also compel the agencies to give a return to the shareholders by paying dividends or surplus and that the process would ensure that government ministries/departments improve service delivery to the public.

2.1.2 The concept of performance Contracting

Gross (1996) argued that the Performance concept could be traced back thousands of years. He claimed that King Hammurabi of Babylon, who reigned from 1855 to 1913, was credited with the first recorded building regulation. It could still be viewed today inscribed on an obelisk housed in the Louvre museum, Paris. That was part of what King Hammurabi said: “The builder had built a house for a man and his work was not strong and if the house he had built falls in and kills a householder, that builder shall be slain”. In that statement Gross insisted that King Hammurabi provided a performance statement. He addressed structural safety entirely in terms of user requirements, did not state how to construct the building, and did not refer to building structure or building materials. Gibson (1982) stated that, the Performance approach was the practice of thinking and working in terms of ends rather than means.

In Kenya, the concept was first introduced in the management of state corporations’ in 1989. A Parastatals’ Reform Strategy Paper, which was approved by cabinet in 1991, was the first official recognition of the concept of Performance Contracting as it was part of the policies that were recommended to streamline and improve the performance of State Corporations: the policies that were intended included divestiture or Liquidation of non-strategic Parastatals, contracting out Commercial activities to the private sector, permitting private sector
competition for existing state monopolies and improvements in the enabling environment of all strategic parastatals including removal of potentially conflicting objectives. Performance Contracts, where applicable would be used to make transparent the cost of social services and to compensate the parastatals for their net costs. The first two parastatals to be on Performance Contracting were Kenya Railways Corporation and the National Cereals and Produce Board. Kenya Railways signed PC’s in April 1989 and National Cereals and produce Board signed in November 1990, (GOK, 2001). The PC’s of Kenya Railways Corporation and the National Cereals and produce Board eventually failed due to lack of political goodwill to drive the process. It was perceived as donor-driven and the PC’s did not conform to the requirements of the three subsystems of PC’s as they lacked the performance incentive system. It also failed as there was no provision for the impact of external factors such as changes in GOK policy, inflation, exchange rate fluctuations that would have made evaluation fair (Lienert, 2003).

To ensure each individual performance commitment in the work place, like well renowned organizations which had overcome the challenges of today’s work environmental turbulence, KRA had joined the fray through the introduction of performance appraisal and commitment by all the staff to meet the set respective standards of performance right from the bottom to the top thus management by objectives (MBO). However to ensure consistent commitment to the set performance standards, it was crucial to attach certain rewards to performance excellence thus rewards such as remuneration based on performance. That also served to motivate the staff towards that end.

2.1.3 The Need for Performance Contract

It was important to understand the other reward systems to appreciate arguments for or against Performance Contracts as a reward system.
2.1.4 Employee Reward Systems

According to Wilson (1995) compensation systems had evolved through a series of stages. He differentiated four developmental stages; discretionary process, job-based system, objectives-based system and customer-focused system. He pointed out that each stage was fitting in relation to the management philosophy of the time. In other words, the evolution of pay programs reflected the management concerns of various periods.

According to Heneman and Dixon (2001), compensation and reward system design and implementation was most often guided either by best practice surveys or by normative models established by the compensation profession.

Odden (2000) argued that under most systems of a salary scale, employees like teachers were rewarded for the number of years spent teaching and the number of tertiary degrees, rather than their performance. For that reason, he believed the salary scale system determined teacher compensation on incomplete criteria. Hoerr (1998) support the argument by stating that any non-merit-based system was unfair for exceptional teachers because they were judged on inefficient criteria. That had been the cause of talented teachers leaving the education system because excellence was not fairly rewarded (Odden, 2001). Only when performance was rewarded and teachers command salaries equal to the private sector without having to progress up an arbitrary salary scale, would the best talent be attracted and retained, (Solomon and Podgursky, 2001).

Sigma, T. (2005) differentiated reward systems into two categories; skill based pay and performance based pay. Skill based pay and performance based pay were measured from different focal points. Skill based pay was aligned to the inputs of skill and knowledge required to perform the required roles. From a skill based perspective the main measures were; Definition of tasks to be performed and definition of skills and knowledge required performing the tasks. Performance
based pay on the other hand was aligned to outputs and achievement of predetermined outcomes. The research would focus more on the Performance based pay.

2.1.5 Attributes of a Good Performance Contract

Okunishi (2001) experience showed that performance based rewards succeed only if: The plan was fully funded such that the amount of money available was provided by an overall performance measure or set of measures which demonstrate that the shareholder was better off before the employees begin to participate. Performance requirements were communicated, measured and rewarded differentially. Employees have to know that superior performance would be rewarded and inferior performance would not; The plan operated in unison with tight control over fixed pay such that companies need to make a decision to stop responding directly to salary surveys on the basis that the overall incentive spend would increase if the performance targets were met; and the plan needed to progressively shift accountability for remuneration decision making to management and away from either a centralized body like HR. Managers thereby became responsible for both fixed and variable pay decisions, within a performance driven budget and had to communicate the reasons for those decisions to recipients.

Bruhn et al (2004) argued that a good Performance contract should be holistic, current and futuristic. It should cover the company mission and vision and should be able to address issues including the external environment. He however felt that for it to succeed it required to consider employees attitudes towards work, company’s vision and fairness of the reward system.

Kaplan and Norton (2001) supported the sentiments and went further to offer more insight stating that customer perspective, internal business perspective, financial perspective plus innovation and learning perspective should form a corner stone of a Performance contract for it to be balanced. From Kaplan and Norton (2001) and Bruhn et al (2004) arguments it was
clear that five factors were important to successfully implement Performance Contracts and these were; Employees attitudes, Working Conditions (internal business perspective), Training (innovation and learning perspective), Measurement tool and External environment (financial perspective, customer perspective, shareholders, politics and competition)

2.1.6 Employees Attitudes and Performance Contracts

Job attitude concept was captured by Douglas McGregor (1957) in his research entitled the human side of enterprise where he advances the thesis that workers operate on two extremes of a continuum on work attitude, Theory x depicted an employee as disliking work, lacking ambition, irresponsible, resistance to change and preferring to be led other than lead. On contrary, the other extreme, that was to say, Theory y projected an employee as a positive attitude inclined being, exhibiting willingness to work accepting responsibility willingly, exercising self direction, control and imagination and exhibiting ingenuity and creativity, (Schemerhorn, 1984).

In a study conducted by Kobia and Nura (2006), on the Kenyan experience of performance contracting, majority of the respondents 179 (63.9%) felt that the performance contract had helped improve communication with the public while 164 (68.6%) agreed that performance contract would increase accountability among public officers. An overwhelming majority 217 (77.5%) of the respondents felt that performance contracts had introduced setting of the individual job expectations and staff performance plans. Over 166 participants felt that as a result of performance contract, performance targets were fairly distributed in their departments. A majority 205 (74.2%) of the respondents indicated that with the introduction of performance contract, public servants were increasingly seeking to multi-skill and diversify to remain on the job. Over 60% of the respondents indicated that with the implementation of performance of contracts, public servants were more involved in decision making, felt evaluation of the performance was done fairly, they knew where to seek assistance concerning
meeting the targets and had assisted in understanding government policy documents. However over 174 (62.1%) respondents indicated that they do not have adequate resources needed to meet their targets (AAPAM, 2005).

There was now a renewed interest in the performance level of the public sector in many developing economies, as they face a more competitive global environment. Efforts to improve the performance level of the public sector focus on both personal and contextual variables. Studies have shown that employees' attitudes towards work do affect their performance, and in turn the attitudes of employees were influenced by personal characteristics and job characteristics, (DeSantis, 1996).

Chiu et al (2002) stated that performance assessment was inherently difficult in the public sector, owing to the difficulty of finding suitable quantitative indicators. The performance appraisal process required a large element of managerial judgment. Whether Performance Contract would have a positive impact on staff was strongly dependent on how well the appraisal process was carried out and, in particular, on how well individual and team objectives were identified and based on performance rather than standard job criteria. Certain conditions, such as transparency, clear promotion mechanisms, and the trust of top and middle management, were essential before introducing a performance-oriented culture. Performance contracts policies were counterproductive in an inadequate management framework, and may in such situations increase problems linked to a lack of trust and even lead to corruption and patronage.

### 2.1.7 Performance Measurement Instruments

The performance measurement Instrument should reflect service priorities for successful implementation. In service to the ultimate goal of a fully functional performance measurement system, practical considerations must take precedence. The study of statewide service
capacity (Spring, 2003) found that at least 23 of the 25 centers in the study conducted with the guidance of the director of the office on homelessness reported that these service areas: food, healthcare/counseling, financial/employment and shelter were included in their Health Management Information System (Crook, 2004).

Milkovich et al (1997) argued that although every organization that wanted to introduce performance contracts, management should create its own version to suit its needs, it was useful to have a conceptual framework within which appropriate processes could be developed and operated. The framework would help in deciding the approach to be adopted, and when the decision had been made it would provide guidance to managers and the individuals and the teams they manage on what performance management activities as they would be expected to carry out. The performance management sequence consists of the following activities: corporate strategies; Business plans; Role definition; performance agreement; personal development plan; action; continuous management of performance through out the year, formal performance review, performance rating and feedback.

Balance scorecard could be employed as a measurement instrument for organizations that intended to measure their performance and whether or not performance targets were achieved or not. The concept of the balanced scorecard required managers to look at the business from four related perspectives: the customer, internal process, improvement and learning, and financial (shareholders). The approach was originally conceived by Kaplan and Norton (2001) as a means of measuring organizational performance. The need to align individual and corporate objectives had led some organizations to adopt an integrated approach to performance measurement and review, using the balanced scorecard headings and criteria as the framework for individual performance, and motivation.

Sokoya (2000) looked at motivation of most employees in the public sectors in the third world countries from Maslow’s ‘hierarchy of needs’. Arranged in the shape of a pyramid, the lower
needs such as survival, safety and security were at the bottom of the structure. Maslow claimed those had been more or less provided for. That might have been true in the Western industrialized nations, but the needs were very evident in the Third World, where billions of people were below the poverty line, and children would forsake school to go to work, taking any chance to better their lives. Even then, the concepts were not inadmissible. The workingman works best if he was allowed to achieve the higher need of say self-actualization in his workplace. An example was the CEDAC (Cause and Effect Diagram with Cards) principle used in Japanese companies. In the system, every worker was to suggest improvements in the work pattern, not only in his area of responsibility but also in others, (Sokoya 2000).

Pippa (2004) said that the people at the top and those at the bottom perceived organizations in different ways. Both perceptions were valid for the different sets of people. It implied that there was no universal model that satisfies all aspects. He argued that in the current business environment, the theories forwarded by Maslow and McGregor appeared to have prevailed over Taylor's theory on scientific management. It essentially meant that running a business to make money needed not be an unpleasant experience, especially for those down the line. It was possible that the Two-Factor Theory suggested by Herzberg might help explain what makes people 'tick'. Herzberg suggested that there were two sets of factors at the workplace. One set of needs derived from man's animal nature. Satisfaction of these needs did not lead to positive happiness, but failure to satisfy these does lead to unhappiness. The other set of needs came from man's uniquely 'human' nature. It necessitated adjustment to one's self. That was what brought true happiness and it lasted as long as the person lived.

Unfortunately, it was not the usual practice to let workers enrich their lives in the manner suggested by such theories. That was possibly why there was as yet no end to the search for
theories on motivation. Still, it was heartening that business enterprises on the whole do apply the theories, if only in parts, (Pippa 2004).

McNerney (1996) supported the argument by stating that performance contracts were intended to evaluate each individual employee performance and average group performance for example, departmentally, sections and ultimately the whole organization entirely. The was further facilitated through management by objectives (MBO) system of management where results expected of each department or section or individual would be established and quantified or measured at designated intervals in order to establish any deviations from the expectations/objectives in order to take necessary corrective actions. Performance as per the objectives right from the bottom level would guarantee to some meaningful degree of confidence that the objectives (results) expected up through the hierarchy would be achieved. In the event that anomalies occur, then failure right from the bottom to the top would be same.

Okunishi (2001) stated that for a measuring tool to be credible it must state clearly the organisation goals and individuals role in achieving them; it should show clearly and well defined differentiated reward programme. Kaplan and Norton (2001) added that the measuring tool must state clear and realistic targets, the targets must be communicated in advance through consultations between the employee and his immediate manager, and there should also be a window for reviewing the targets to adapt with the changes in the operating environment.

2.1.8 Staff Training and Skills

Cattell (1999) explained that training and development could be initiated for a variety of reasons for an employee or group of employees. When a performance appraisal indicated performance improvement was needed, to "benchmark" the status of improvement so far in a performance improvement effort, calls for an overall professional development program.
That was part of succession planning to help an employee to be eligible for a planned change in relation to the roles in the organization. To "pilot", or test, the operation of a new performance management system, training on/about a specific topic including Communications was indeed important. The increasing diversity of today's workforce brings a wide variety of languages and customs, Computer skills which were becoming a necessity for conducting administrative and office tasks. Customer service necessitated by increased competition in today's global marketplace makes it critical that employees understand and meet the needs of customers. Diversity training usually included explanation about how people had different perspectives and views, and included techniques to value diversity, Ethics given that today's society had increasing expectations about corporate social responsibility. Also, modern world's diverse workforce brought a wide variety of values and morals to the workplace, Cattell (1999).

Kaplan and Norton (2001) felt that there was need to improve staff skills and make them well equipped to handle the challenges in achieving the organizational objectives in line with the vision. Training may seem costly and futuristic but it was none the less very vital as it ensures organizational competitiveness.

Okunishi (2001) stated that an organisation could not purport to punish employees' poor performance without giving them opportunities to sharpen their skills through training.

Kaplan and Norton (2001) gave five essentials for staff training as far as performance contracts were concerned. These included; it must offer improvement of skills required currently and in the future; there must be a clear means of assessing employees training needs; there must be ease in accessing the training required; the training must be a mix of internal, on job and external training; employees must be involved considerably in the planning for the training.
2.1.9 Working Conditions

Pinaki (2000) argued that a basic management question was what makes a person put in his best for his organization. The question leads to various situations involving the Rational Economic Man, the Mass Industrial Man, the Social Man, the Self-Actualizing Man, and the Complex Man. Each scenario tries to delve deep into the individual’s mind to determine what makes him ‘tick’.

Wilson (1995) stated that for compensation system to work it must link individual goals and achievement to group goals and achievement. He said employees were social beings and may not succeed if alienated to operate individually. After all that was not in the interest of the organization.

Pinaki (2000) felt that employees working condition was very vital by exemplifying the visions of a character so rooted in his working environment that he could live only with the habits carried over from his workplace, like the protagonist in Chaplin’s film Modern Times whose twitching hands simulate the tightening of nuts and bolts even after he had left the factory. Pinaki continued his argument with looking at a somewhat brighter scene came through the study conducted in the 1920s. That was the famous Hawthorne Study. The study revealed that the most potent factor motivating people to work well was the working group he belonged to. The working group knew it was being studied. The fact that it was being singled out for special attention made each group member work harder, each supporting the others’ efforts in a synergistic way. It seemed that an unseen psychological contract was drawn, binding people together. The pay and the other conditions did not matter. A sense of well-being was fostered by belonging to groups comprising similar individuals. Thus, the theory of the Social Man was born. There was a spin-off from the findings. The Western Electric Company abandoned the vast impersonal work-benches and organized the workers into
groups of friendly teams. Each team's leader had to create group identity. The company re-
discovered what the workers had known all along. Inside the factory, they may be just
numbers on a payroll account, but they were also living beings having a dynamic social
interaction amongst them. Each worker brought a 'man' into the factory and no attempt by the
organization to make cogs out of the workers worked. It only led to alienation

Kaplan and Norton (2001) stated that a balance score card must first look at the internal
processes, how they currently existed and be realistic about goals. Employees must not be
subjected to targets which may not be achievable within the current working conditions.
There may be too many unnecessary activities which may not be within the hands of the
employees to change.

Pfeiffer (2003) felt that working condition was one of the most important factors in ensuring a
successful implementation of performance contracts. He said if the working conditions were
not right then the whole arrangement would crumble.

Kaplan and Norton (2001) noted that employees must be availed with the tools for them to
perform. Those tools must be the best the company could afford and must be reliable in order
to make the employee work better.

Okunishi (2001), however, gave the following three points as principle features common to all
performance-based wage systems: Results, more than processes, were emphasized as a wage-
determining factor; Short-term results, more than long-term results, were emphasized; They
widen the wage gap. That would in essence lower team work.

Kaplan and Norton (2001) argued that team effort must be included in the balance score card
and must in essence be encouraged rather than emphasizing of individualism.
Performance contracts if not well implemented would tend to focus more on monetary gains employees receive other than the wholesome approaches it entailed. Therefore despite the defaults mentioned most Kenyan companies have already implemented performance contracts in their normal activities including the Government of Kenya and its related organizations.

2.1.10 External Environment and Performance Contracting

Emery and Giauque (2001) argued that the administrative and legal environment in a country provides a framework within which an organization operates. In some countries the environment was very restrictive and had significant impact on all aspects of the organization; in other countries the administrative/legal context was more permissive. Understanding the administrative/legal environment was essential to determining if organizational change could take place. The administrative context within which the organization operates may be shaped by a unique combination of forces, including international, governmental, nongovernmental policy, legislative, regulatory, and legal frameworks. An organization was affected by the policy or regulatory context that gives rise to it. That included specific laws and regulations that supported or inhibited the institution's development. Both the types and the level of technology in the society gave insight into understanding an institution. Institutions dealing with Western paradigms were dependent on the state of national infrastructure, for example power, water, transport; those which concentrate on indigenous research paradigms might have been totally different dependencies. Thus, it was important to understand the level of relevant technology in the institutional context and whether such technology was defined by computer literacy or by highly developed indigenous methods of verbal and nonverbal communication. It might also be helpful for an assessment to include a consideration of the process by which new technology came into use, both to understand how difficult it was to acquire needed research technologies and to develop an appreciation for the society's willingness to embrace both new knowledge and change ,(Lienert, 2003).
AAPAM, (2005) argued that at a general level, IDRC needed to understand the relationship between governmental strategy or development plans and the institution. Several specific dimensions of the political context should be scrutinized including the extent to which government and its bureaucracy supported and contributed resources to the institution: It was imperative that IDRC and other funding agencies knew whether significant governmental inputs were anticipated to support increased staffing, maintenance, or other recurring costs typical in research projects. The political context usually entailed resource trade-off decisions at the government level and the extent to which the political system was stable or poised to undergo significant change: The factor was vital; the foreign policy context and its effect on IDRC should also be considered.

In the economic environment, the organizational analysis should centre on those aspects of the economic system that directly impacted the type of project being considered. For example, inflation, labour laws, and opportunity costs for researchers in public institutions directly impacted organizational activities. Clearly, a country under a structural adjustment regime or one that was expecting to undergo restructuring presents an investment context that IDRC needed to understand. Countries with foreign currency restrictions represent different environments for institutions than countries without them, for such restrictions have ramifications for research, e.g. for equipment procurement and maintenance. It was important for IDRC to know how the organization the Centre was supporting was affected by these and other economic forces, (Dlamini, 2001).

According to OECD (1999), social and cultural forces at local, national, and often regional levels had profound influence on the way organizations conducted their work and on what they value in terms of outcomes and effects. For example, the more of an indigenous culture had a bearing on the work ethic and on the way in which people related to one another.
Undoubtedly, the most profound cultural dimension was language. The extent to which organizational members could participate in the discourse of the major scientific language would determine the extent to which research efforts focused inwardly or contribute to regional and global research agendas. Understanding the national/regional/local values toward learning and research provided insight into the type and nature of research that was valued. For example, what was the relative priority placed on contract research in partnership with local clients, e.g. testing products and procedures with indigenous populations, as opposed to sharing information with academic peers internationally, or generating bio-statistical data that would shape national or regional policy? Arriving at these priorities involves culture-based decisions.

Okunishi (2001) explained that without political goodwill then it was very difficult to change performance of individuals in a Government owned organisation even after the introduction of Performance contract.

Kaplan and Norton (2001) argued that the shareholder was interested in the financials of the company while the customer wants improvement of service delivery. The two stakeholders were vital in the construction of performance contract.

Okunishi (2001) and Kaplan and Norton (2001) were in agreement that an employees performance should not be judged in isolation with the external environment. They both wanted an employee who had performed well in a tough environment be rewarded better than an employee with similar performance but in a less competitive environment.

2.1.11 Successes of Performance Contracts in Kenya

Kobia and Nura (2006) stated that the Government of Kenya had adopted Performance Contracting in the Public Service in order to ensure a reduction or altogether elimination of reliance on exchequer funding for government agencies which were expected to generate revenue or make profit; An objective basis for divesting loss making government agencies, it
would also compel the agencies to give a return to the shareholders by paying dividends or surplus; The process would ensure that government ministries/departments improve service delivery to the public.

They claimed that the expected outcome of introduction of Performance Contracts was: Improved performance; Decline in reliance on Exchequer funding; Increased transparency in operations and resource utilization; Increased accountability for results; Linking reward on measurable performance; Reduced confusion resulting from Multiplicity of objectives; Clear apportionment of responsibility for action; Improvement in the correlation between planning and implementation; Creating a fair and accurate impression on the performance; Greater autonomy; Creation of enabling legal and regulatory environment.
2.2 Conceptual Framework

Figure 2.2.1: Conceptual Framework

Attitude of the staff

Measurement's instruments

Training and skills of the staff

Working conditions

External Environment

Affects

Effective Performance Contracts

Independent variables

Source: Researcher (2007)

The function of Effective Performance could be represented as

\[ Y = aX_i + bX_{ii} + cX_{iii} + dX_{iv} + fX_{v} + e \]

Where

Y : represent the dependent variable Effective Performance Contract

Xi : represent the independent variable Employees Attitude

Xii : represent the independent variable Measurement Instrument

Xiii : represent the independent variable Training and Skills of the Staff

Xiv : represent the independent variable Working Conditions

Xv : represent the independent variable External Environment.

a, b, c, d and f: were coefficients for Xi, Xii, Xiii, Xiv and Xv respectively

e: was the Error term.
Kaplan and Norton (2001) stated that the importance of the independent variables; training, external environment and working condition towards making an effective Performance Contracts while Bruhn et al (2004) showed that attitudes, measurement tool and working condition was vital to making an effective performance contract.

2.2.1 Summary and gaps to be filled by the Study

Literature by Kaplan and Norton (2001), Okunishi (2001), Pfeiffer (2004) and others who had argued strongly for the case of Performance contracts contribute very little on challenges of implementation of contracts in Kenya and it was such gaps in literature that the research intends to fill. The reviewed literature hinted on factors that could lead to a successful implementation of change. The theories and studies however did not state clearly with proof of an empirical data factors that must be taken care of if a successful implementation of a change was to be made. It was therefore important for the study to be conducted in order to identify the factors that would be instrumental towards creating a faster acceptability to change and more specifically the introduction of performance contracts. KRA having successfully implemented it provided a great opportunity to extract the main challenges that faced the successful implementation of performance contracts.

The next chapter was Methodology which would show the study design, sampling method and the study instrument to be used amongst others.
CHAPTER THREE: RESEARCH METHODOLOGY

3.0 Introduction

The chapter presented the research design, target population, the sample design and sampling methods, the sources of data, the data collection instruments, as well as the data analysis techniques that would be employed. It would also outline the expected output.

3.1 Research Design

The research would adopt the descriptive research design. Descriptive research was used to obtain information concerning the current status of the phenomena with respect to variables or conditions in a situation, (Mutai, 2000). The design ranged from survey which described the status quo, the correlation study which investigates the relationship between variables, to developmental studies which seek to determine changes over time.

The respondents would be expected to describe factors that challenged the implementation of performance contracts at the KRA. The method was crucial for the study because the issue at hand requires to be described and the phenomenon analysed for conclusions. The design was appropriate because according to Mugenda and Mugenda (1999), descriptive research enabled respondents to give more information on the issue of interest to the researcher.

3.2 Target Population

The target population was specifically KRA staff Southern Region. It covered Malindi (32 staff members), Lungalunga (8 staff), Mombasa (488 staff), Voi (6 staff), Taveta (9 staff) and Lamu (7 staff). The organization had a total workforce of 550 within The region of whom 276 were non management and the other 274 were managers at different levels. Since performance contracting was signed by KRA managers only, the study then targeted the management population of 274 spread across departments in the region (table 3.1).
Table 3.2.1: Target Population

<table>
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<th>Middle level</th>
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<td>M &amp; C</td>
<td>3</td>
<td>3</td>
<td>5</td>
<td>11</td>
</tr>
<tr>
<td>ICT</td>
<td>3</td>
<td>5</td>
<td>8</td>
<td>16</td>
</tr>
<tr>
<td>I and E dept</td>
<td>3</td>
<td>4</td>
<td>8</td>
<td>15</td>
</tr>
<tr>
<td>Procurement section</td>
<td>3</td>
<td>4</td>
<td>8</td>
<td>15</td>
</tr>
<tr>
<td>Total</td>
<td>36</td>
<td>92</td>
<td>146</td>
<td>274</td>
</tr>
</tbody>
</table>

Source: KRA HR Data 2008 Southern region

3.3 Sample Size

The basic idea of sampling was that by selecting some of the elements in a population, we may draw conclusions about the entire population. The method was suggested to ensure that each management level of the target population had an independent and equal chance of being selected to the sample so that we have all levels included. The sample size would be obtained using the table in appendix V. (Israel, 1992)

The table in appendix v shows that with a population of 274 from Southern Region then the sample size would be 116 taking a precision level of 7%.

Israel (1992) claims that samples obtained from a precision level of 10% or below was good enough to provide a good picture of the population.
The table uses the formula: \( n = \frac{N}{1 + N\left(e^2\right)} \)

Where

\( n \) : Sample Size : calculated as 116

\( N \) : Population : KRA's Southern Region Total Employees 274

\( e \) : Precision Level : Suggested by wasrael (1992) 7%

(Cochran, 1963; and Israel, 1992)

Using the formula

\[ n = \frac{N}{1 + N\left(e^2\right)} \]

\[ n = \frac{274}{1 + 274\left(0.07^2\right)} \]

\[ n = 116 \]

From the target population of 274, a sample size of 116 employees was therefore taken. Stratified sampling was used because the population was stratified according to their level of management (top, middle and lower) giving three strata from where random sampling would be taken. According to Kothari (2000), a stratified random sample was used when the population was not homogenous making it the most appropriate technique to come up with the sample. Once the strata have been obtained, random sampling would then be used to arrive at the respondents for the research. It would take 42% of employees for each stratum (top, middle and lower) in all departments. The researcher then assigned random numbers in each stratum containing names of all the respondents arranged in alphabetical list in a descending order. The researcher then selected the required population sample using a random numbers as recommended by Spiegel (1972) replacing all those who were unwilling until all the possible respondents were exhausted.

The techniques would also ensure that all the employees had an equal chance of being the respondents of the study which checks any possibility of biasness when sampling.
<table>
<thead>
<tr>
<th>Department/Section</th>
<th>Grade: 3-5</th>
<th>Grade: 6-7</th>
<th>Grade: 8-10</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration</td>
<td>1</td>
<td>6</td>
<td>11</td>
<td>18</td>
</tr>
<tr>
<td>Customs service dept</td>
<td>4</td>
<td>13</td>
<td>18</td>
<td>35</td>
</tr>
<tr>
<td>Domestic Taxes dept</td>
<td>3</td>
<td>8</td>
<td>17</td>
<td>28</td>
</tr>
<tr>
<td>Road Transport dept</td>
<td>1</td>
<td>3</td>
<td>5</td>
<td>9</td>
</tr>
<tr>
<td>HR</td>
<td>2</td>
<td>2</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>M &amp; C</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>ICT</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>I and E dept</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Procurement section</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>15</strong></td>
<td><strong>39</strong></td>
<td><strong>62</strong></td>
<td><strong>116</strong></td>
</tr>
</tbody>
</table>

Source: (Researcher) 2008

**3.4 Data Collection Instrument and Procedure**

Primary and Secondary data was used for the study. Secondary data was sourced from newspapers, reports, peer reviews, magazines, previous research website and books on the subject matter. Primary data was collected through a self administered questionnaire by researcher. The questionnaire, composed of mainly closed ended questions was the main instrument in collecting primary data for the purpose of the research. The questionnaire was probing as much as possible and was administered by the researcher to the respondents who would then be given two days to fill the questionnaire. The researcher would then collect the questionnaires himself at the end of the two days to ensure maximum response rate.
### 3.5 Operationalization of variables table

<table>
<thead>
<tr>
<th>Variable</th>
<th>Target Group</th>
<th>Instrument Used</th>
<th>Question Number</th>
<th>Indicators</th>
</tr>
</thead>
</table>
| Employees Attitude               | KRA’s Southern Region Top; Middle and Lower Level Managers                   | Questionnaire    | 8               | • Increased/ decreased Enthusiasm in working  

  • Positive/negative Belief in the system  

  • Positive/Negative feeling of individual performance  

  • Decreased/increased perception of nepotism and tribalism  

  • Positive/Negative views that organization goals were being met |
| Assurance                        | KRA’s Southern Region Top; Middle and Lower Level Manager                   | Questionnaire    | 9               | • Clear/ not clear organizational goals and individual roles  

  • Realistic/Unrealistic targets  

  • Well/Poorly communicated contract details  

  • Flexibility/inflexibility of the tool; (reviews)  

  • Encourage/Discourage good performance |
| Salary Environment                | KRA’s Southern Region Top; Middle and Lower Level Manager                   | Questionnaire    | 10              | • Does/Doesn’t Improve skills  

  • Wide/Narrow choices  

  • Clear/unclear means of assessing needs  

  • Ease /Difficulty in accessing training  

  • Involve/exclude employees in planning |
| Working Conditions                | KRA’s Southern Region Top; Middle and Lower Level Manager                   | Questionnaire    | 11              | • Does/Doesn’t encourage team work  

  • Does/Doesn’t consider current working conditions  

  • Does/Doesn’t consider provision of tools  

  • Does/Doesn’t encourage good leadership |
| Personal Environment              | KRA’s Southern Region Top; Middle and Lower Level Manager                   | Questionnaire    | 12              | • Not/are affected by politics  

  • Not/impacted social set up  

  • Not dependent/dependent of economic activities  

  • Does/Doesn’t encourage technological advancement  

  • Does/Doesn’t encompass needs of stakeholders  

  • Does/Doesn’t encourage environmental activities |
3.6 Data Analysis Techniques

Upon collecting data from the field the raw data collected was collated to aid simplification. Coding and checking for completeness was then done to ensure that they were duly filled. Tabulation and summaries were then prepared before the analysis was done. Cross tabulations and frequencies were used for easier analysis. Descriptive statistics, measures of central tendency and those of dispersion would be used to analyse the data. The Statistical Package for Social Scientists (SPSS) was used to make the analysis easy. The data was then presented using graphs and curves as well as tables. Qualitative data was then summarized and analyzed using narratives.

There was need to mention the analysis of questions that used likert scale. The questions were first be analyzed as string data to reflect the level of agreement the respondent had on those questions and then they were weighed in numeric form before analyzing the mean scores. The scores would be awarded as follows 1 for Totally Disagree; 2 for Disagree to a large Extent; 3 for neither Agree nor Disagree; 4 for Agree to a large extent and 5 for Totally Agree.

3.7 Expected Outcome

The study expected to extract the effectiveness of Performance Contracts by measuring how each variable had scored. The mean score for Employees Attitude, Measurement Instrument, Training and Skills of Staff, Working Conditions and External environment would be obtained using weighted average method where: Disagree Totally: Disagree to a large Extent; Neither Agree nor Disagree; Agree to a large extent; and Totally Agree would be given weights of 1,2,3,4 and 5 respectively. The study was expected to show to what extent each factor was a challenge to the effectiveness of Performance Contracts.
4.0 Introduction
This chapter gave a presentation of the findings, and then it discussed the results from the analysis. The chapter highlighted the response rate; the demographics of the respondents, the employees’ responses on the challenges faced in the implementation of performance contracts in Kenya Revenue Authority (KRA) Southern Region and then it discussed the results.

4.1 Response Rate
The researcher had sent 116 questionnaires to all the departments in KRA Southern Region. 116 questionnaires were to be filled by KRA Southern Region employees from all the departments. 94 questionnaires were returned registering an 81% response rate.

4.1.1 Response Rate by Department
Response rate by department is shown in table 4.1. 30 employees from Custom Service department responded which was the highest number of response compared to all other departments while road transport department had the highest response rate of 89% with 8 out of 9 employees sampled responding. Human resource department had the least number of respondents with only 2 employees responding department also had 50% response rate which was the least compared to other employees. However all other departments responded well as shown in table 4.1 recording over 70% response rate. This response rate indicates a positive representation of the numbers sampled.
Table 4.1
Respondents by Department

<table>
<thead>
<tr>
<th>Department/Section</th>
<th>Respondents</th>
<th>Sample</th>
<th>Response Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration</td>
<td>13</td>
<td>18</td>
<td>72%</td>
</tr>
<tr>
<td>Customs service Department</td>
<td>30</td>
<td>35</td>
<td>86%</td>
</tr>
<tr>
<td>Domestic Taxes Department</td>
<td>23</td>
<td>28</td>
<td>82%</td>
</tr>
<tr>
<td>Road Transport Department</td>
<td>8</td>
<td>9</td>
<td>89%</td>
</tr>
<tr>
<td>Human Resource Department</td>
<td>2</td>
<td>4</td>
<td>50%</td>
</tr>
<tr>
<td>M &amp; C</td>
<td>3</td>
<td>4</td>
<td>75%</td>
</tr>
<tr>
<td>ICT</td>
<td>5</td>
<td>6</td>
<td>83%</td>
</tr>
<tr>
<td>I and E Department</td>
<td>5</td>
<td>6</td>
<td>83%</td>
</tr>
<tr>
<td>Procurement section</td>
<td>5</td>
<td>6</td>
<td>83%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>94</strong></td>
<td><strong>116</strong></td>
<td><strong>81%</strong></td>
</tr>
</tbody>
</table>

4.1.2 Response Rate by Management Levels

Table 4.2 represented the response rate by management level. 60 lower level managers responded which was the highest number of response which was also the highest response rate of 97% with 60 out of 62 managers sampled responding. Middle level managers followed with 30 respondents out of 39 which was 77% response rate while top level managers had the least response with only 4 respondents out of 15 managers sampled which was 27% response rate.

Table 4.2
Respondents by Management Levels

<table>
<thead>
<tr>
<th>Management Levels</th>
<th>Response</th>
<th>Sample</th>
<th>Response Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top</td>
<td>4</td>
<td>15</td>
<td>27%</td>
</tr>
<tr>
<td>Middle</td>
<td>30</td>
<td>39</td>
<td>77%</td>
</tr>
<tr>
<td>Low</td>
<td>60</td>
<td>62</td>
<td>97%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>94</strong></td>
<td><strong>116</strong></td>
<td><strong>81%</strong></td>
</tr>
</tbody>
</table>

4.2 Respondents Demographics

In the demographics the study looked at the: respondents gender; their age; and number of years respondents had worked for KRA.

4.2.1 Respondents Classification by Gender

Respondents when classified by gender showed that there were more male employees than females with 71 men responding while 23 ladies responding. It showed that 76% of respondents were men while 24% were ladies as indicated by figure 4.1
4.2.2 Respondents Classification by Age
Respondents were then classified by their age and it showed that KRA had an ageing work force with only 24 out of the 94 respondents being below 36 Years age mark as shown in figure 4.2 which represented 26% of the respondents. 34% of the respondents were above 45 which were nearing their retirement age while employees at the prime age of employment i.e. 36-45 were 40%.

4.2.3 Respondents Classification by Number of Years’ Worked in KRA
Respondents were then classified by the numbers of years they had worked in KRA and it showed that KRA had amassed wealth of experience and retaining their work force efficiently with 58% having worked for over 10 Years while 26% had worked between 5-10 Years with 9% having worked between 3-5 Years and only 7% having worked below 3 Years as shown in Figure 4.3.
4.2.4 Respondents Classification by Marital Status

Respondents were then classified by marital status. 71 of the respondents were married which represented 76% of the respondents while 33 were singles which represented 34% of respondents as shown in figure 4.4.

Figure 4.4
Respondents’ Marital Status
4.3 Nature of KRA’S Performance Contracts
The study obtained the average length of performance contract signed by each employee and their opinions on fairness, their understanding of the contracts, whether they were comfortable with its contents and how it was introduced.

4.3.1 Average Length of the Contract
Table 4.3 showed that the mean months for contract was 12 months.

<table>
<thead>
<tr>
<th>Descriptive Statistics</th>
<th>Respondents</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract Duration by Months</td>
<td>92</td>
<td>12</td>
</tr>
</tbody>
</table>

4.3.2 Fairness, Comfort and Knowledge Base of KRA’s Performance Contracts
Figure 4.5 showed that 62% of the employees claimed to have understood the content of their contracts but only 32% claimed that they were comfortable with the terms of the contracts and only 32% found the contract to be fair.

4.3.2.1 Reasons Why KRA’s Performance Contracts Were Fair
Figure 4.6 showed the composition of the 32% respondents who thought that KRA’s Performance Contracts were fair. It showed that 40% of them thought it was fair because it had a good basis of determining rewards, 30% claimed that it was easy to measure while 20%
said that it was fair because they understood the reward system and 10% of them claimed that the contract was fair because it acted as a learning guide for future contracts.

**Figure 4.6**

**Reasons Why KRA’s Performance Contracts Were Fair**

<table>
<thead>
<tr>
<th>Had a Good Basis</th>
<th>Easy to Measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Understand Reward System</td>
<td>Contract act as a learning guide</td>
</tr>
</tbody>
</table>

4.3.2.2 Reasons Why KRA’s Performance Contracts Were Not Fair

Figure 4.7 showed the composition of the 68% respondents who thought that KRA’s Performance Contracts were not fair. It showed that 49% of them complained that there was a problem with how the results were being measured to ascertain whether an employee had met the target, 17% claimed that the contract was not fair because target set had a problem because of either the process was not consultative, or the targets were not realistic or not communicated properly to the parties concerned. 13% of them claimed that they were not prepared for the introduction of Performance Contracts properly while the other 13% of them claimed that there was lack of control on performance by employees hence unfairly judged on the results since they were not in positions to influence their performance in whatsoever means. 4% said that it was not fair because it was neither free from politics and it was not taken seriously as a criterion for promotion.
4.3.3 Understanding KRA’s Performance Contracts Implementation Process

The KRA’s Performance contract implementation process was important to understand in order to understand at the outset: whether the implementation process was done properly; whether employees were aware of their individual and collective goals; the nature of their performance goals; whether they were adequate motivational approach to boost employees’ morale; preferences for motivational approaches; remuneration method preferences; employees support on the Performance Contract ideology; whether its implementation was justifiable; and to understand whether employees were provided with adequate time in a Station/Programme to service the contract before further transfers were effected.

4.3.3.1 KRA’s Performance Contracts Implementation Process

Figure 4.8 showed that KRA did not properly introduce Performance Contract to their employees. Although 60% of the employees agreed that training had been done prior to implementation 23% only thought it was effective and that only 28% claimed that they had been adequately prepared for the implementation of Performance contract. 40% claimed they were assisted to understand it by the manager’s above them.
4.3.3.2 Employees Awareness on KRA’s Performance Goals

Figure 4.9 showed that there was high awareness level on individual and collective goals with 83% of the respondents claiming that they were aware of individual and collective goals.

4.3.3.3 Nature of KRA’s Performance Goals

Figure 4.10 showed that 51% thought the performance goals were acceptable, with 49% believing that they were attainable and 41% claiming they were realistic. This showed that employees even though they were aware of the goals but did not overwhelming regard them as acceptable nor attainable nor realistic.
4.3.3.4 Adequacy of KRA’s Motivational Approaches

Figure 4.11 showed that KRA’s motivational approach were inadequate with only 26% of the employees claiming that KRA’s motivational approach were adequate while the rest stating otherwise.

4.3.3.5 KRA’s Employees Preferred Motivational Approaches

Figure 4.12 showed that 83% of KRA’s employees preferred promotion, while 79% were motivated by monetary rewards, 53% were motivated by special recognition, 34% were encouraged by fringe benefits, 4% were motivated by a good employee transfer policy, while
2% were motivated by having an employer with a listening ear, get opportunities for professional training and having a good working environment.

Figure 4.12
KRA’s Employees Preferred Motivational Approaches

4.3.3.6 KRA’s Employees Preferred Remuneration Method
Figure 4.13 showed that; 4% of KRA’s employees’ preferred basic salary only, while 15% of KRA’s employees’ preferred basic salary plus bonus based on performance, 6% of KRA’s employees’ preferred basic salary, fringe benefits plus bonus based on performance, 72% of KRA’s employees’ however preferred basic salary, fringe benefits, promotion plus bonus based on performance. It showed that most employees would prefer remuneration package that was all inclusive that would provide for basic salary, fringe benefits, promotion plus bonus based on their performance.
4.3.3.7 KRA’s Employees Support for Performance Contract

Figure 4.14 showed that most of KRA’s employees supported Performance Contracts ideology with only 32% being against it.

Figure 4.13
KRA’s Employees’ Support for Performance Contract
4.3.3.8 Employees' Views on Whether KRA's Performance Contract Was Just

Figure 4.14 showed that although most KRA's employees supported Performance Contracts ideology 85% did not think it was fair unjust way of remunerating within the prevalent working conditions.

Figure 4.14
Employees' Views on Whether KRA’s Performance Contract Was Just

![Diagram showing 85% unjust and 15% just]

4.3.3.9 Views on Whether KRA provided time to Employees for Adjustment

Figure 4.15 showed that it was not clear for most employees that KRA would provide adequate time for employees to adjust to their environment before being transferred on the basis of performance. 78% of the employees claimed that KRA did not provide for adequate time for an employee to familiarize with a working environment before being transferred.

Figure 4.15
Views on Whether KRA provided time to Employees for Adjustment

![Diagram showing 78% doesn't provide and 22% provides]
4.4 Key Factors in KRA’s Performance Contract Implementation

Figure 4.16 showed employees did not view KRA policy makers put enough effort in getting right the key ingredients of Performance Contracts. Employees views on how the policy makers handled issues regarding external environment, working conditions, measurement instrument and employees attitudes were all below 3 which showed though they were uncertain they tended to disapprove policy makers commitment on those issues. They only felt some level of commitment from their policy makers regarding training.

Figure 4.16
Key Factors in KRA’s Performance Contract Implementation

4.4.1 Employees Attitudes towards Performance Contracts

Figure 4.17 showed that employees slightly disagreed that Performance Contracts; reduced nepotism, increased employees enthusiasm, increased chances of employing good performers. They neither agreed nor disagreed on whether Performance Contracts increased output and that they were very useful tools for meeting revenue targets.
Figure 4.17

Employees Attitudes towards Performance Contracts

<table>
<thead>
<tr>
<th>Attitude</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Useful in Meeting Revenue Targets</td>
<td>3</td>
</tr>
<tr>
<td>Reduced Nepotism</td>
<td>2</td>
</tr>
<tr>
<td>Chances of Employing Good Performers</td>
<td>2</td>
</tr>
<tr>
<td>Increased Output</td>
<td>3</td>
</tr>
<tr>
<td>Enthusiasm</td>
<td>2</td>
</tr>
</tbody>
</table>

4.4.2 Measurement Instrument

Figure 4.18 showed that employees slightly disagreed that Performance Contracts’ as a Measurement instrument; encouraged best performers and that the targets were set through consultations. They neither agreed nor disagreed on whether Performance Contracts’ as a Measurement instrument; had realistic targets, was clear on individual and collective roles and that regular and continuous feedback was being practised in KRA.

Figure 4.18

Measurement Instrument

<table>
<thead>
<tr>
<th>Feature</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reward System encourages Best Performers</td>
<td>2</td>
</tr>
<tr>
<td>Regular and Continuous Feedback</td>
<td>3</td>
</tr>
<tr>
<td>Targets set through Consultations</td>
<td>2</td>
</tr>
<tr>
<td>Realistic Targets</td>
<td>3</td>
</tr>
<tr>
<td>Clarity of roles individually and collective</td>
<td>3</td>
</tr>
</tbody>
</table>
### 4.4.3 Training Skills for KRA Staff

Figure 4.19 showed that employees agreed slightly that Performance Contracts' as a Training Tool was used to upgrade skills for most employees. They neither agreed nor disagreed on; whether there were any consultations prior to coming up with training needs, accessibility of training, clarity on how training needs are deduced and whether KRA combined internal, on job and external job training needs essential for enhancing performance of employees.

#### Figure 4.19

**Training Skills for KRA Staff**

<table>
<thead>
<tr>
<th>Training Skill</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consultation when coming up with training needs</td>
<td>3</td>
</tr>
<tr>
<td>Easy access of training facilities</td>
<td>3</td>
</tr>
<tr>
<td>Clarity on deduction of training needs</td>
<td>3</td>
</tr>
<tr>
<td>Training in KRA combines internal, on job and external training</td>
<td>3</td>
</tr>
<tr>
<td>Training provided to upgrade skills</td>
<td>4</td>
</tr>
</tbody>
</table>

### 4.4.4 Working Conditions

Figure 4.20 showed that employees disagreed slightly that Performance Contracts' took into account the prevalent working condition. They neither agreed nor disagreed on; whether Performance contract improved working conditions by encouraging leadership, entrenching team work and synchronizing tools provisions and output measures.
4.4.5 External Environment

Figure 4.21 showed that employees agreed slightly that Performance Contracts' considered external environment by encompassing needs for all stakeholders. They neither agreed nor disagreed on whether Performance contracts encouraged participation of environmental conservation activities, encouraged technological advances, was independent of economic activities, was independent of politics and was independent of KRA social set up.
Figure 4.21
External Environment

- Encourage participation in environmental activities
- Encompasses needs of all stakeholders (score: 4)
- Encourage technological advances (score: 3)
- Does not depend on economic activities (score: 3)
- Not affected KRAs Social set up (score: 3)
- Not affected by Politics (score: 3)
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction
This chapter gives summary, discussion of results, conclusion and recommendation derived from the study.

5.1 Summary
The study showed that KRA implementation performance contracts in the southern region were not well executed. Key ingredients were not considered like employees attitudes, staff working conditions, the strength of the measurement tool and external environment. The only factor that was slightly considered by KRA policy makers was the training for improvement.

Research used questionnaire to achieve its objectives. The general objective of the study was to investigate the challenges faced in the implementation of performance contracts in Kenya Revenue Authority (KRA) Southern Region.

The findings were summarized as:

- KRA supported the use of Performance contract ideology but felt that it was not fair and just in the prevalent state of implementation.
- KRA employees were trained and prepared for the introduction of performance contracts but the training was not effective and hence did not provide them with adequate confidence and information.

The first specific objective of the research was to investigate the extent to which attitudes of the staff at KRA was a challenge to the implementation of the performance contracts among the staff.

- KRA had done a little to clear suspicion of nepotism
- KRA had done a little to increase employees enthusiasm towards performance contracts
- KRA had done a little to demonstrate differentiation where best performers would be rewarded handsomely and differently from good, average and poor performers.
The second specific objective of the research was to investigate the effects of performance measurements instruments in the implementation of performance contracts at KRA.

The findings were summarized as:

KRA Measurement tool had the following weaknesses:

- It was not consultative
- It was not clear on how the best and worst performers would be measured
- There was no clarity between individual and collective goals
- It did not encourage regular and continuous feedback practice
- Targets set were not realistic

The third specific objective of the research was to investigate whether the training and skills of the staff were a challenge to the implementation of the performance contracts at KRA.

The findings were summarized as:

KRA Measurement tool had the following Strength:

- There was commitment in improving employees skills

KRA Measurement tool had the following weaknesses:

- There was no clarity on how training needs were deduced
- Training need plan was not consultative

The fourth specific objective of the research was to investigate if working conditions in the organization were a challenge to the implementation of the performance contracts within KRA.

The findings were summarized as:

- It never took into account the prevalent working condition
- It did not demonstrate that it was encouraging leadership
- It did not demonstrate that it was encouraging team work

The fifth specific objective of the research was to investigate if working conditions in the organization were a challenge to the implementation of the performance contracts within KRA.

The findings were summarized as:

KRA External Environment Scanning for Implementation of Performance Contract had the following Strength.
• It encompassed needs for all stakeholders

KRA External Environment Scanning for Implementation of Performance Contract had the following weaknesses
  • It did not encourage participation of environmental conservation activities
  • It did not encourage technological advances
  • It did not demonstrate independence from politics
  • It did not demonstrate independence from prevalent KRA social set up
  • It did not demonstrate independence from economic activities

5.2 Discussion of the Results
Most of KRA’s were disillusioned on the Performance Contracts. They liked the ideology and were supportive of it but they did not trust it as a tool to appraise them. Most employees did not think that Performance Contract as a measurement tool was realistic, attainable and that their lack of control to direct their performance did not go well with their expectations. They seem to be frustrated on lack of consultations during planning process and the lack of regular and continuous performance reviews and feedback.

5.3 Conclusion
The research showed that KRA had issues to tackle if the performance contract was to be more effective. They faced serious challenges on employees’ attitudes, employees’ confidence on the measurement tools, implementation of the performance contract under the prevailing working conditions and how to protect performance contracts from being interfered with by external factors.

5.4 Recommendation
The study provides recommendation and areas for further studies

5.4.1 Policy Recommendations
i) Employees Attitudes
  • KRA need to consult their employees more, communicate regularly and effectively
ii) Measurement Tool
  • KRA need to re-look at their current measurement tool to see if it was realistic, stretched enough
• Ensure clarity between individual and collective goals
• Demonstrate clearly how performance would be measured and points of differentiation between good, average and bad performers and the extremes from both ends

iii) Training
• Have clarity on training needs assessment process
• Demonstrate inclusiveness in planning for training

iv) Working Conditions
• Demonstrate importance of leadership
• Demonstrate importance of teamwork and how it can still work on performance contract

v) External Environment
• Enforce Professional Ethics and investigate political patronage rumours and make appropriate communications to avoid information gaps which spoil the corporate image
• Entrench external environment in the measurement tools but with less weight since most employees have little to influence the external environment.

5.4.3 Areas for further studies
• It would be interesting to understand the means that KRA uses to encourage staff retention
• To do a comparative study on the difference between implementation of performance contract between public and private enterprises


Cliffs: Prentice-Hall.


Pinaki (2000) Evaluating the Payment System and Social Dynamics of the Work Environment, University of Otago, Dunedin, NZ.


Solomon, L and Podgursky, M (2001) the Pros and Cons of Performance-Based Compensation, Milken Family Foundation, Pascadena Speckbacher, G., Bischof, J.


APPENDIX I: LETTER TO THE RESPONDENT

BENARD ONDIEKI
KENYATTA UNIVERSITY
P.O. BOX 43844
NAIROBI
AUGUST 2008

Dear Respondent,

RE: RESEARCH ON CHALLENGES OF IMPLEMENTING PERFORMANCE CONTRACTS

I am a postgraduate student at Kenyatta University pursuing a Master of Business Administration. I am carrying out the above mentioned study in Kenya Revenue Authority, Southern Region. The success of the research substantially depends on your help and cooperation.

I hereby request you to respond to the questionnaire items as honestly as possible and the best of your knowledge. The questionnaire is designed for the purpose of this study only therefore the response shall absolutely be confidential. No name shall be required from any respondent.

Thanking you in advance.

Yours faithfully,

BENARD ONDIEKI
STUDENT

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APPENDIX II: QUESTIONNAIRE

TOPIC – INVESTIGATION OF CHALLENGES OF IMPLEMENTING PERFORMANCE CONTRACTS IN KENYA REVENUE AUTHORITY SOUTHERN REGION.

Precautionary Statement

This study is purely for learning purposes, responses will be kept confidential and names of respondents are not required. Kindly answer the questions freely:

Bio Data

1. What is your gender? Male [ ] Female [ ]

2. What is your marital Status?
   Single [ ] Married [ ] Divorced [ ] Widowed [ ]

3. Which is your department?

4. How old are you?

<table>
<thead>
<tr>
<th>Age bracket</th>
<th>Below 25 years</th>
<th>26 – 35 years</th>
<th>36 - 45 years</th>
<th>46 -55 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Response</td>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

5. For how long have you worked in KRA?

<table>
<thead>
<tr>
<th>Length of Service</th>
<th>Below 3 years</th>
<th>3 – 5 years</th>
<th>5 – 10years</th>
<th>Over 10 years</th>
</tr>
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<tbody>
<tr>
<td>Response</td>
<td></td>
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</tr>
</tbody>
</table>

6. What is the duration of your performance contract that you have signed? (Indicate in months or years) .........................................................

Performance Contracts Basics
Did you understand all details entailed in your performance contract before you signed it?

(tick the appropriate description)

Yes

[ ] A

No

[ ] B

Are you comfortable with the terms of your performance contract?

(tick the appropriate description)

Yes

[ ] A

No

[ ] B

Do you think performance contract reward system is the fairest method?

(tick the appropriate description)

Yes

[ ] A

No

[ ] B

Kindly explain

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

Question 8 to 12 shall use Likert Scale: Disagree Totally (1), Disagree to a large Extent (2), Neither Agree nor Disagree (3), Agree to a large extent (4) and Totally Agree (5).
## 8: Employees' Attitudes

Kindly indicate the extent at which you agree with the following statements. Tick as appropriate

<table>
<thead>
<tr>
<th></th>
<th>Disagree Totally</th>
<th>Disagree to a large extent</th>
<th>Neither agree nor disagree</th>
<th>Agree to a large extent</th>
<th>Totally Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>8: Employees’ Attitudes</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8a) KRA employees are very enthusiastic about their performance contracts</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>8b) KRA employees believe Performance contracts have increased output at KRA</td>
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<td></td>
</tr>
<tr>
<td>8c) Performance Contracts have increased chances for good performers to be employed</td>
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</tr>
<tr>
<td>8d) Performance Contracts have reduced the chances of promotions based on nepotism, tribalism and gender biasness.</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>8e) Performance Contracts enables KRA to meet its targeted Revenue collection hence it is extremely useful.</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>
### 9: Measurement Instrument

<table>
<thead>
<tr>
<th></th>
<th>Disagree Totally</th>
<th>Disagree to a large extent</th>
<th>Neither agree nor disagree</th>
<th>Agree to a large extent</th>
<th>Totally Agree</th>
</tr>
</thead>
</table>


9a) There is clarity of organizational goals and the role each employee plays to achieve them.

9b) The targets set for each individual are realistic.

9c) The targets are set through consultation between an employee with his immediate manager.

9d) There is regular and continuous feedback and reviews are made accordingly and not just a one off appraisal at the end of the year.

9e) The reward system encourage best performance by rewarding handsomely those who perform excellently.

### 10: Training and Skills of the Staff

<table>
<thead>
<tr>
<th></th>
<th>Disagree Totally</th>
<th>Disagree to a large extent</th>
<th>Neither agree nor disagree</th>
<th>Agree to a large extent</th>
<th>Totally Agree</th>
</tr>
</thead>
</table>

**10. Training Skills of the Staff**

10a) The training provided by KRA offer to improve employees skills in order to surpass their targets.

10b) Training in KRA combines internal, on job and external training.

10c) There is a clarity in understanding how training needs for individual employee is arrived.

10d) There is ease at accessing training facilities.
10e) Staff are involved and consulted in coming up with training needs.

<table>
<thead>
<tr>
<th></th>
<th>Disagree</th>
<th>Disagree to a large extent</th>
<th>Neither agree nor disagree</th>
<th>Agree to a large extent</th>
<th>Totally Agree</th>
</tr>
</thead>
</table>

11. Working Conditions

11a) The Performance Contract encourage team work by entrenching team work in the appraisal

11b) Targets in the Performance contract take into account the current working conditions of the employees

11c) The Performance Contracts state clearly the expectations of the organization on the employees and the tools that they will be provided to meet those expectations.

11d) Performance contracts encourage good leadership by giving much weight of leaders’ appraisal on the basis of how his subordinates are rated.
12: External Environment.

<table>
<thead>
<tr>
<th>Disagree Totally</th>
<th>Disagree to a large extent</th>
<th>Neither agree nor disagree</th>
<th>Agree to a large extent</th>
<th>Totally Agree</th>
</tr>
</thead>
</table>

12a) Performance Contracts is not largely affected by the political environment in Kenya.

12b) Performance Contracts have not impacted the social set up at KRA significantly.

12c) Performance contract does not depend largely on the level economic activities.

12d) Performance Contract encourage technological enhancement.

12e) Performance Contracts encompasses the needs of stakeholders including; customers, Government and public.

12f) Performance contracts encourage employees to participate in environmental activities.

THANKS AND GOD BLESS FOR YOUR TIME
### APPENDIX III: WORK PLAN

#### Year 2008

<table>
<thead>
<tr>
<th>Month /Activity</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
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## Research Budget

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<th>Items</th>
<th>Cost (Ksh)</th>
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<td><strong>2. Data Collection</strong></td>
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<td><strong>4. Contingency</strong></td>
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## APPENDIX V: SAMPLE SIZE TABLE

Table 1. Sample size for ±3%, ±5%, ±7% and ±10% Precision Levels Where Confidence Level is 95% and P=.5.

Formula Used: \( n = N / \{1 + N(e)^2\} \)

Where

- \( n \): Sample Size,
- \( N \): Population
- \( e \): Precision Level

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<th>Sample Size (n) for Precision (e) of:</th>
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