

**PERFORMANCE CONTRACTING AND PERFORMANCE OF  
PARASTATALS IN THE MINISTRY OF TRANSPORT, KENYA**

**BY.00**

**LOICE S. KITSAO**

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT  
OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF  
MASTER OF BUSINESS ADMINISTRATION (MBA), SCHOOL OF  
BUSINESS**

**UNIVERSITY OF NAIROBI**

**2018**

## **DECLARATION**

I the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the University of Nairobi for academic credit.

Signed..... Date.....

**Loice S. Kitsao**

**D61/64520/2013**

### **Project Approval**

This project is presented for examination with my approval as the appointed supervisor.

Signed..... Date.....

**Dr. J Kagwe**

Lecturer, School of Business

## **DEDICATION**

To my family and Friends I dedicate this research project to my family and friends, for their moral and spiritual support.

## **ACKNOWLEDGEMENT**

I thank God, for the good health during the period of the study my Supervisor Dr. Kagwe for the guidance and endless support and all other person who supported me in one way or the other throughout this journey.

## TABLE OF CONTENT

<b>DECLARATION.....</b>	<b>ii</b>
<b>DEDICATION.....</b>	<b>iii</b>
<b>ACKNOWLEDGEMENT.....</b>	<b>iv</b>
<b>LIST OF TABLES .....</b>	<b>viii</b>
<b>LIST OF FIGURES .....</b>	<b>ix</b>
<b>LIST OF ACRONYMS AND ABBREVIATIONS .....</b>	<b>x</b>
<b>ABSTRACT.....</b>	<b>xi</b>
<b>CHAPTER ONE: INTRODUCTION .....</b>	<b>1</b>
1.1    Background of the Study.....	1
1.1.1    Performance Contracts.....	2
1.1.2    Organizational Performance .....	4
1.1.3    Transport Sector in Kenya .....	4
1.1.4    Parastatals in the Ministry Transport Kenya.....	6
1.2    Research Problem.....	8
1.3    Objective of the Research .....	9
1.4    Value of the Study.....	9
<b>CHAPTER TWO: LITERATURE REVIEW.....</b>	<b>11</b>
2.1    Introduction .....	11
2.2    Theoretical Background .....	11
2.2.1    Goal Setting Theory .....	11
2.2.2    Principal -Agency Theory .....	12
2.3    Performance Contracting and Organisational Performance.....	13
2.3.1    Performance Contracting Terms and Conditions.....	13
2.3.2    Performance Contracting Goal Setting and Objectives .....	14
2.3.3    Employees Attitudes and Perception towards Performance Contracting ....	15

2.4	Summary of Empirical Review and Research Gaps .....	16
<b>CHAPTER THREE: RESEARCH METHODOLOGY .....</b>		<b>18</b>
3.1	Introduction .....	18
3.2	Research Design.....	18
3.3	Population of Study .....	18
3.4	Sample Size and Sampling Technique .....	19
3.5	Data Collection.....	20
3.6	Data Analysis and Presentation.....	20
<b>CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND DISCUSSION ...</b>		<b>22</b>
4.1	Introduction .....	22
4.2	Summary of the Pilot Results.....	22
4.3	Demographic Characteristics .....	23
4.4	Performance Contracting Terms and Conditions .....	25
4.5	Performance Contracting Goal Setting and Objectives.....	28
4.6	Employees Attitudes and Perception towards Performance Contracting.....	32
4.7	Organisational Performance .....	33
4.8	Inferential Statistics.....	35
4.8.1	Correlation Analysis .....	35
4.8.2	Regression Analysis.....	38
<b>CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS ...</b>		<b>42</b>
5.1	Introduction .....	42
5.2	Summary .....	42
5.3	Conclusions .....	43
5.4	Recommendations .....	44
5.5	Suggestions for Future Research.....	44
<b>REFERENCES.....</b>		<b>46</b>

<b>APPENDEXES</b> .....	<b>50</b>
Appendix I: Letter of Introduction .....	50
Appendix II: Research Questionnaire .....	51
Appendix III: Parastatals in the Ministry of Transport .....	56

## LIST OF TABLES

<b>Table 4.1</b> Summary of Reliability Statistics.....	23
<b>Table 4.2</b> Demographic Characteristics Results .....	24
<b>Table 4.3</b> Descriptive Results for Performance Contracting Terms and Conditions .....	27
<b>Table 4.4</b> Descriptive Results for Performance Contracting Goal Setting and Objectives .....	30
<b>Table 4.5</b> Descriptive Results for Attitudes and Perception towards Performance Contracting.....	32
<b>Table 4.6</b> Descriptive Results for Organisational Performance .....	34
<b>Table 4.7</b> Correlation Matrix.....	36
<b>Table 4.8</b> Regression Analysis Model Summary .....	38
<b>Table 4.9</b> Analysis of Variance (ANOVA).....	38
<b>Table 4.10</b> Regression Coefficients .....	39



## LIST OF FIGURES

<b>Figure 4.1</b> Response Rate.....	22
<b>Figure 4.2</b> whether terms and conditions in performance contracts are employee friendly .....	25
<b>Figure 4.3</b> Whether Goals/Targets Setting Influence the Effectiveness of Performance Contracting.....	29

## **LIST OF ACRONYMS AND ABBREVIATIONS**

<b>ERSWC</b>	Economic Recovery Strategy for Wealth and Employment Creation
<b>KRC</b>	Kenya Railways Corporation
<b>PC</b>	Performance Contracting
<b>PSA</b>	Public Service Agreement
<b>UK</b>	United Kingdom

## ABSTRACT

The use of performance contracts among government institutions has gained momentum in the recent past. Performance contracts have been popularized because of the perceived benefits in enhancing organisation performance. It is because of this reason that this study focused on influence of performance contracts and organisational performance in the ministry of transport in Kenya. The study particularly focused on establish how performance contracts terms and conditions, performance contracts goal setting and objectives and employees' attitudes and perception on performance contracting affect organisational performance. The study was anchored on two theories including goal setting theory, and agency theory. This study population comprised of all employees working in parastatals under the ministry of transports and a sample of 384 derived using Fisher formulae was used. Data used in this study included primary data gathered using a structured questionnaire. Correlation and regression tested the association between study variables while regression ascertain the effect of performance contracts terms and conditions, performance contracts goal setting and objectives and employees' attitudes and perception on performance contracting on the organisational performance. The results show that performance contracting terms and conditions, performance contracts goal setting and objectives and employees' attitudes and perception on performance contracting had significant effects on organisational performance of parastatals. Based on these findings, the study concluded that effectiveness of the performance contracts used by government and other private entities rely on employees understanding of the performance contracts. Performance contracts that are clearly understood in terms of terms and conditions therein, goals/targets and expectations yield better organisational and employees' performance. The study recommends that administrators of performance contract in government parastatals in collaborations with the human resources department in the specific organisation should create awareness among all the employees on terms and conditions contained in performance contracts. The employees must be informed on the nitty gritty of the performance contracts to increase their effectiveness in ensuring improved organisational performance.

## CHAPTER ONE: INTRODUCTION

### 1.1 Background of the Study

Performance contracting is a concept that began in France in the 1970s. Performance contracting is being utilized in many countries including those with developed economies and those with emerging economies purposely to improve performance of organisations (Lijphart, 2014). Hodge (1998) noted that since the emergence of performance contracting, many institutions in the public sector have adopted it to enhance the effectiveness and efficiency. Performance contracting ensures that all the employees within the public sectors are evaluated to ensure that they deliver as stipulated in the contracts (Obong'o, 2009). These contracts have led to increase employees' engagement and more result focused workforce that result to overall increased performance (Kompaso & Sridevi, 2010).

Various theories have been proposed by various scholars that link performance contracting and both employees performance and organisational performance. However, the current study will be anchored by three theories. First the study adopted goal setting theory (Locke, 1960). The theory postulates that challenging tasks requires goal setting to achieve better results. The study will also be anchored on principal-agent theory proposed by Jensen and Meckling (1976).

The study was conducted in parastatals under the ministry of transport in Kenya. The corporation was established under an act of parliament in 1978 (Kobia, & Mohammed, 2006). Among the mandate of the parastatals under the ministry of transport is to spearhead adoption of technology, suggest effective and efficient ways in railways sector, and spearhead the expansion of the railways network in the countries. The ministry of

transport is essential in realizing of Kenya vision and fall under infrastructure pillar of vision 2030 (Kobia, & Mohammed, 2006).

### **1.1.1 Performance Contracts**

Performance contracting is a contract that is signed by two parties such as employer and employees to execute a give task according to the agreed on term and condition within a specified period of time and with the use of stipulated resources (Hodge, 1998). Similarly, Armstrong (2006) defines performance contracting as an organised ways to enhancing the performance of an organisation through realizing and maintaining the performance of individuals within the organisation (Van Dooren, Bouckaert & Halligan, 2015). The organisation performance and effectively is achieved by ensuring the individuals who work within the organisation remain engaged and are results driven. Most of the performance contracting involves consequences when the goal are not achieved which act as a driving factors.

Performance contracting is linked to the field of management science specifically known as to management control systems (Mwaniki & Gathenya, 2015). A performance contract can be operationalized into a definition of roles, and what is expected from two groups to achieve the organisation targets. To other scholars, such as Kim, Cohen and Netessine, (2007) performance contracting is a tool for defining and articulating the objectives of employer clearer in view of supporting innovative management, and can further be used as a monitoring and control tool and for achieving high operational autonomy among all the employees in an organisation (Xu, Chan & Qian, 2011).

Globally, performance contracting has been adopted in public sector in various countries (Zhang, Han, Liu & Sun, 2008). Some of the notably countries that have adopted performance contracting include China, India, Bangladesh and Pakistan in Asia while in

Latin America performance contracting has been adopted in countries such as Argentina, Brazil, Chile and Bolivia among others. Similarly, performance contracting is common in United Kingdom, United States and Canada (Zhang, Han, Liu & Sun, 2008).

Specifically, performance contracting began in United Kingdom in the late 1990s which was referred to Public Service Agreement that include performance targets set for all the government bodies and institutions and the regulating authority (Hansen, 2006). Similarly, Finland public sector adopted the performance contracting to ensure the public sector remains accountable and responsible for their actions. In Denmark, The performance contracting come into effect in 2005 and to date it has been used to enhance delivery of services in public sector (Xu, 2012). In United States of America, performance contracting was established under the act of government and the main purpose was to ensure federal department became more productive.

Regionally, performance contracting has been used in Africa with countries such Ghana, Senegal and Nigeria in the West Africa and in the Southern Africa; performance contracting had been adopted in South Africa and Namibia. In all this countries performance contracting has been used to enhance the productivity of the public sector (Gravelle, Sutton & Ma, 2010).

In Kenya, performance contracting first emergence in 1989 due to the public outcry on the nature of the public service that were been offered at time. Kenya Railways and National Cereal Produce Board in 1989 and 1990 respectively were the first parastatals in Kenya to introduce performance contracting however, it failed due to lack of the political good will since the whole process was viewed as donor driven (Omoding, 2013). Performance contracting was later reintroduced in 2003 through ERSWC. The reintroduction of the PC led to the creation of the committee to spread head the process

and in 2004, PC was introduced in government parastatals as pilot (Thairu, 2011). The wide applicability of the performance contracting imply its use has been effective in ensuring effectiveness and efficiency in public sector.

### **1.1.2 Organizational Performance**

The entire concept of organisational performance is anchored on the ability to realize its objectives using the resources at its disposal (Luo, Huang, & Wang, 2012). According to Carton (2004) organisation performance is the tool used to determine whether the organisation has achieved the purpose for which it was created for. The measure of organisation performance varies since the same measure used by private entities cannot apply in public sector. Whereas private organisation uses accounting measure such as profitability, revenue and growth, the public sector measure quality of service delivery, effectiveness and efficiency (Propper & Wilson, 2003).

Organisational performance can be categorized to financial performance, organisational effectiveness and operational performance (Jiménez-Jiménez & Sanz-Valle2011). In profit oriented organisations, performance is measured using profit earnings and other financial turnovers while non-governmental organisations relied on social benefits to measure their won performance (Székely & Knirsch, 2005). In this study was measured using growth in assets of the organisation and finally effectiveness of service provided by parastatals (Neely, Gregory & Platts, 1995, Al-Matari, Al-Swidi & Fadzil, 2014).

### **1.1.3 Transport Sector in Kenya**

The Ministry of Transport and Infrastructure is responsible for; road, rail, air, maritime and non-motorised transport sub-sectors. The sub-sectors are crucial in the spearheading government efforts to ensure development in major spheres such as social, economic and governance. This is because efficient and effective state enterprises are a

springboard for rapid and sustainable development. In addition, it plays a key role in national, regional and international integration, trade facilitation and more importantly in supporting poverty reduction. The vision is to be global leaders in the provision of transport infrastructure, maritime, economy, public works and housing for sustainable socio-economic development. The ministry has various state departments which include: State Department for Transport which is mandated to ensure the country transport systems is streamlined to the international standards. State Department for Infrastructure on the other hand focuses to ensuring development of the country's infrastructures which include roads, railways among other infrastructure projects. Housing and Urban Development which is mandated in development of housing and spearheading the country housing agenda, Maritime & Shipping Affairs deals with matter of maritime transport and finally State Department for Public Works

The transport sector in Kenya is controlled by both public sectors and private sectors in public private partnership (Murambi & Bwisa, 2014). The road transport is predominantly private companies controlled while the government deals with railways, water and air transport which also have few private operators (Asingo, 2004). In the recent past there has been massive investment in transport by government which has included the current construction of standard gauge railways to easy transport of both freight and people from the busy port of Mombasa, expansion of bath at the port, expansion and rehabilitation of roads such as Thika Highway and Mombasa Highway.

Historical, transport sector in Kenya has undergone tremendously improvement. Since independence, the transport sector in Kenya has given much priority to road construction but lack of management has left most of the road in poor shape (Wasike, 2001). For instance in 1998, the transport sector in Kenya comprised of about 150,000 kilometer of



road, one railway network which connected Mombasa to Uganda and four international airport, a number of small airport and only three inland container deport. However, road transport was still the major contributor to the national output compared to the other mode of transports (Wasike, 2001). Today, with the flagship project such as the standard gauge railways, renovation of the major international airport and improvement in the road network, it paints a clear picture that Kenya is on the road to achieving Vision 2030 as far as the transport sector is concerned (Wissenbach & Wang, 2017). Kenya Railways Corporation has been a key partner in achieving this milestone especially in implementation of projects in railways expansion.

#### **1.1.4 Parastatals in the Ministry Transport Kenya**

The establishment of the parastatals in Kenya was preceded by an Act of parliament among other written law that provided the legal foundation for the establishment. The parastatals are majorly owned by government or other state corporation ((Njiru, 2008). These parastatals are classified into broad categories including financial state parastatals, commercial and manufacturing, public universities and training and research facilities, regulatory and tertiary education and training. The state parastatals main purpose is to supplement development of social and economic goals (Omosa & Josiah, 2014).

The focus of this study included 11 parastatals in the Ministry of Transport. These parastatals include Kenya Railways Corporation (KRC) with delas with the matters of railways transport development including the standard gauge railways. The study also focused on Kenya Railways Training School, Kenya Ports Authority, Kenya Airports Authority, Kenya Civil Aviation Authority, East African School of Aviation, Transport Licensing Board, Transport Licensing Appeals Board, National Transport Safety Authority, Kenya Ferry Services, LAPSSSET Authority and Kenya Maritime Authority.

The study focused on the transport sector in Kenya. The sector is so fundamental to the expansion of the national economy due to its contribution to movement of both freight and people. The importance of transport to economic development was first highlighted by Adam Smith (Young, 2010). According to the Smithian assertion transport section is one of the economic productive branches that create value. The author further argued that as business in a country continues to produce more and more goods and services they need access to new market either within the country or outside the country, transport sector comes in to provide solution to such business in accessing the much needed new markets for their good and services (Saboori, Sapri & bin Baba, 2014).

The Kenyan government has continued to form parastatals to meet commercial and social goals, which include: correcting the existing market failures, spearheading social and political goals, ensuring development of education and health services. The parastatals are also used in redistributing income and ensuring marginalized areas are developed (Njiru, 2008). Today, parastatals have become the conduits for channeling and managing development resources and activities in Kenya (Kamoche, 2011). Parastatals have been selected for the study because they significantly contribute to the country economic development. The sector also provides gainful employment to hundreds of thousands of Kenyans and foreigners (Kamoche, 2011).

## 1.2 Research Problem

Performance contracting was introduced in the public sector to improve the performance of state corporations after a long period of poor service. The adoption of performance contracting in various countries and organisation has showed that it improves organisational performance (Zhang, Han, Liu & Sun, 2008). Organisation performance is the tool used to determine whether the organisation has achieved the purpose for which it was created for (Carton, 2004).

This area of performance contracting and organisation performance has received significant studies. For instance, Obong'o (2009) focused on extent of implementation of performance contract and established that performance contracting enhanced service delivery and refocused the employees in organisations. Kobia and Mohammed (2006) focused on Kenya experience with the performance contracting and established performance contracting enhanced employee performance. Letangule, Letting and Nicholas (2012) focused on the impacts of PC on effectiveness in the public sector and the study finding showed that PC affected service delivery, effectiveness and consistency.

Globally, a study conducted by Wong (2004) focused on performance contracting and performance of contractors in UK. The study finding showed that performance contracting influence the performance of contractors significantly. Another study Uusikylä and Virtanen (2009) studied performance contrast in government of Finland. The finding showed that performance contracts were critical in re-focusing the public servants to be more results oriented.

The studies by Obong'o (2009), Kobia and Mohammed (2006) Letangule, Letting and Nicholas (2012) showed that there had been little attention among the existing literature that has focused on performance contracts and performance of parastatals in the ministry

of transport in Kenya. Therefore there is a contextual gap that the current study sought to address. Similarly, studies available in this area have not focused on the effect of PC conditions, PC objectives and goal and finally the employees' perception on PC and how they affect organisation performance, which is a conceptual gaps that the current study sought to address. To address the above contextual and conceptual gaps, the study sought to find out to what extent does Performance Contracting affects performance of parastatals?

### **1.3 Objective of the Research**

To establish the influence of performance contracting on organisational performance of parastatals in the ministry of transport

### **1.4 Value of the Study**

This study may be of value to management of parastatals in the ministry of transport, policymakers and scholars and academicians in the field of corporate management. The management of the parastatals in the ministry of transport will be informed on the effects of performance contracts on their corporation performance. The study findings may provide the management with insights on the effect of PC on performance which may be used to improve on the current systems of performance contracting to achieve better results.

The study findings may also useful to policy makers in Kenya. The performance contracting are used across many government entities and corporations therefore the findings from parastatals in the ministry of transport may be used by policymakers as the basis to enhance and revise policies on performance contracting to make it more effectiveness to achieve better performance. This study will became the basis to enhance and revise policies on PC to make it more effective to achieve better performance.

These study findings may further be valuable to further scholars, researcher and academician in both the field of human resource management and business administrations. Further scholars may adopt this study as a reference point in their studies since this study expounded the available theoretical and empirical literature on performance contracting and organisational performance.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

In this section the study presents the discussion of theories and empirical studies proposed and conducted on performance contracts effectiveness in organisational performance. Theoretical and empirical literature review was used to hypothesize the association between the study variables. This section was of very significant to the study and provided the understanding of the baseline effect of PC on performance of organisation as established by other studies. The review further aided in established of the available research gaps in the area of performance contracts and organisation performance.

### **2.2 Theoretical Background**

Theoretical review is very essential to a research and provides the researcher with the understanding of the underlying relationship among variables being studied. The theoretical literature paints a picture on the relationship between two variables other factors held constant or in ideal situation. It also provides the basis of understanding the influence of other factors on the relationship between various variables. For instance, goal setting theory was adopted to explain the relationship between PC goals and targets and organisational performance. The theory is founded on precept that clear goal setting enhanced performance of organisations other factors held constant. The study also was anchored on agency theories whose proponents argue that both the agent and principal in agent-principal relationship have interest that need to be addressed. In situations where there are conflicting interests, the organisational performance is compromised.

#### **2.2.1 Goal Setting Theory**

Locke (1968) goal setting theory postulates that challenging tasks requires goal setting to achieve better results. The theory further, postulates that employees are motivated by

clear goal setting and positive feedback from their work. According to the proponents of this theory such as Ebeclin and Tatum (2005) individuals' employees' performance and overall performance of the corporation can be enhanced through setting clear goals and having well defined targets (Nganga, 2014).

According to Kleiman, (2011) organisation goals aimed at steering the organisation to the desired end must be smart, precise, measureable, and realistic and time bound which are antecedents of the goal setting theory. This theory is very relevant to the current study since it relates the performance goal setting and objectives and organisational performance. According to this theory organisation that are able to formulate clear smart, precise, measureable, and realistic and time bound goals and objectives are better placed to enhance their performance. However, organisations that are unrealistic goals in their performance contracts are likely to suffer staff demotivation and resistance to performance contracting hence negatively impacting on the overall organisational performance.

### **2.2.2 Principal -Agency Theory**

Jensen and Meckling (1976) theory is grounded on the separation of power between the principal and agents. In a situation where the principal delegates decision making authorities to the agents and the agent uses the resource provided by the principal to achieve the principals' interest, agents sometimes commit moral hazards by substituting the principals' agents by their own interests. Management of state corporations such as Railway Corporation act as the agents of the government in steering the government interests. The government interest is to expand the railways network to boost the transport network which is supposed to achieve through the agents at Kenya Railways corporations. Therefore, performance contracts are tools used by government to

synchronize the management interests and the interest of the government to avoid the agency conflicts as postulated by agency theorists.

## **2.3 Performance Contracting and Organisational Performance**

The study reviewed studies relating to performance contracting terms and conditions, goal setting and objectives and employees attitudes and perceptions toward PC and how it affect organisational performance.

### **2.3.1 Performance Contracting Terms and Conditions**

The ways employees in an organisation construct terms and conditions in performance contracting plays determines the effect of performance contracts on organisation performance. For instance Joyce (2014) studies contract management practices in performance contracting and organisational effectiveness in Kenya among state corporations. The study objective was to identify how effective contract practices impact on organisation effectiveness, the study used descriptive analysis and the population was derived from state corporations. The study findings established that performance contracts if managed properly improves the performance of organisations and recommended that administrators of performance contracts must be carefully with terms included in the performance contracts.

Mohamed (2009) focused on the impacts of performance contracts on effectiveness and organisational performance at Kenya Revenue Authority. The study objectives included the effect of performance contracting schemes on revenue collection. The population included senior management at Kenya revenue authority and the study used secondary data materials. The study findings showed that performance contracting enable Kenya Revenue Authority to increase revenue reduce customer turnaround time and streamlined reporting and operational structures.



A study conducted in Tanzania by Shiwa (2014) focused on the effectiveness on performance contract management and contractors performance in Oil and gas companies. The study focused on procedures of contract management used by oil and gas contractors and their impact on performance monitoring. The study sampled 28 contractors from one company based in Dar es Salaam and the finding revealed that performance contracting was an effective tool in performance monitoring of contractors.

### **2.3.2 Performance Contracting Goal Setting and Objectives**

Gitiba (2010) focused on the role of performance contracting in target realization and as a tool of human resource management. The study used a case study research design and focused on teacher service commission in Kenya. Primary data collected using face to face and secondary data annual evaluation reports were adopted in this study. The study finding revealed that teacher service commission had adopted performance contracting which enhance and improved service delivery among their members.

Mauya (2015) focused on performance targets and performance in the ministry of tourism. The study population was derived from employees in all management cadres from the head office of the ministry of tourism in Kenya. The study gathered primary data using semi structured questionnaires. The study predominantly adopted the use of descriptive statistics in the data analysis and established that performance targets have significant impacts on service delivery.

Letangule, Letting and Nicholas (2012) also conducted a study that focused on the goal setting during performance contracting and organisation performance using at the ministry of education. This study relied on descriptive research design and data analysis was done using inferential analysis. The study findings indicated that setting rational and measurable goals in the process of performance contracting contributes significantly in

improving the effectiveness of performance contracts in improving government entity performance and service delivery. The study concluded that setting goals was the most important aspects of performance contracts if such contracts are to achieve or realize sustainable economic growth and development.

### **2.3.3 Employees Attitudes and Perception towards Performance Contracting**

Mang'ale (2013) focused on analysing the employees' perception on performance contracting at the local government in Kenya. Mang'ale (2013) study was descriptive in nature and the population comprised on 270 employees obtained at the ministry of local government. The results showed that employees were never involved in the performance contracting, they were never committed and lack the capacity to conceptual the entire process of performance contracting.

Another study by Wanjiru (2016) focused on performance contracting and employee perceptions at Multimedia University in Kenya. Random sampling was adopted to select 82 employees that were interviewed. The study established that majority of employees did not actively participate in the process of performance contracting hence they developed a negative perception and attitudes toward the process which affected the effectiveness of the process to deliver its objectives. The study recommends that employees must be sensitized about the process of performance contracting to enhance its effectiveness.

Awino and Saoli (2014) studied management attitude and perception on performance contracts strategy at the Nairobi City County. The study main objective was to find out the perception of management about performance contracting and to establish some of the factors contributing to effectiveness of performance contracting at the Nairobi City County. The study employed cross sectional design and gathered primary data using semi

structured questionnaires. The study used descriptive and factor analysis in the analysis and established that perception of managers was multidimensional and relied on the involvement in the process. The perception of manager about performance contracting affected their level of work commitment and engagement hence affecting their overall performance.

Kipkenei, Ndiku, Maiyo and Cherui (2016) focused on the resources need and service delivery on the performance contracts among local teachers training institute's in Kenya. The study specific objectives aimed at determining the perception of employees about performance contracting and recommendation ways to enhance effectiveness of performance contracts in public sector. The study findings established a significant relationship between employees perception of performance contracting enhanced service delivery.

## **2.4 Summary of Empirical Review and Research Gaps**

Analysis of the literature review showed that previous studies established mixed findings on the relationship between performance contracting and organisational performance. For instance Joyce (2014), Mohamed (2009) and Letangule, Letting and Nicholas (2012) findings established that performance contracts if managed properly improve the performance of organisations. On the other hand, Shiwa (2014), Gitiba (2010) showed that performance contracting has insignificant effect on organisation performance.

Similarly, review of the existing studies on performance contracting and organisation performance revealed that there exist both the contextual and conceptual gaps that need to be addressed. Studies such as Joyce (2014), Mohamed (2009), Shiwa (2014), Gitiba (2010), Mauya (2015) and Letangule, Letting and Nicholas (2012) were conducted on performance contracting and performance but their focus was in completely different

contexts not Parastatals under the ministry of transport. Hence the current study will seek to address this contextual research gaps. Similarly, studies such as Letangule, Letting and Nicholas (2012), Mang'ale (2013) and Wanjiru (2016) that have been conducted in the Kenyan context have not focused on the effect of PC conditions, PC objectives and goal and finally the employees' perception on PC and how they affect organisation performance, was the main gaps the current study addressed.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

In this section, the study presents the methods of data collection, planning of research design, data analysis and presentation that the study employed to ensure research questions are addressed. This section is important in a study in a number of ways, one is that the consumer of the study findings are able to follow the entire process used in arriving at the findings and conclusion which contributes to the validity of the findings. the second importance of this section is that similar studies may adopt the different methodologies to the one used in this study to authenticate the study findings or use the similar methodologies in different contexts for comparison of the findings.

### **3.2 Research Design**

Authors such as Kothari (2004) define research design as the systemic plan and process that link all the aspects of the research to provide solution to the research questions. The study adopted a descriptive cross sectional research design since it focused on a number of parastatals in the ministry of transport. This design was appropriate to establish how the real situation on how things are without interference. The cross sectional design on the other hand was used because data was collected across various firms in the same sector.

### **3.3 Population of Study**

Population is defined as the entire sets of all the elements, objects or individuals that the study intends inferences about (Kothari, 2004). The population of this study included 11 parastatals in the Ministry of Transport (appendix III). The unit of observation was all management employees working in 11 parastatals in the Ministry of Transport comprised

the target population in this study. The number of management employees in these parastatals is about 21,000 hence this was the population of interest of the study.

### **3.4 Sample Size and Sampling Technique**

Since the target population was large and contained more than 10,000 elements, the study opted for a fisher's (1998) formula which was formulated for larger study population. The formula adopted by this study is as shown below;

$$n = Z^2 * p * (1-p) / d^2$$

n= the desired sample size for large population (above 10,000)

Z= the standard normal derived at the required confidence level

p= the probability value of success

q=1-p, probability value for failure

d= the level of statistical significant set.

Based on this formula, the sample size for the study was 384 and the study employed stratified random sampling to select the study sample.

**Table 3.1 Sample Size**

	<b>Parastatals</b>	<b>Population of employees in management</b>	<b>Sample Size</b>
1	Kenya Railways Corporation (KRC)	3245	59
2	Kenya Ports Authority	2997	55
3	Kenya Airports Authority	1809	33
4	Kenya Civil Aviation Authority	1458	27
5	East African School of Aviation	1345	25
6	Transport Licensing Board	1643	30
7	Transport Licensing Appeals Board	1890	35
8	National Transport Safety Authority	720	13
9	Kenya Ferry Services	1789	33
10	LAPSSET Authority	2096	38
11	Kenya Maritime Authority	2008	37
	<b>Total</b>	<b>21,000</b>	<b>384</b>

### **3.5 Data Collection**

Primary data was primarily used in this study and was gather using a questionnaire. The questionnaires were constructed using likert scales to measure the respondents' opinion on performance contracting and organisational performance. The questionnaires were structured in section each testing research questions. The study used drop and pick methodology in data collection where respondents were allowed maximum of 2 days to fill the questionnaires.

### **3.6 Data Analysis and Presentation**

Data analysis is the entire process that is used to reduce raw data into more meaningful information. Various techniques and procedure can be used to analyse data but this study since it is a descriptive study relied more on descriptive techniques in conducting data analysis. The study employed the use of mean and standard deviation in analysing how respondents responded to various statements in the questionnaires. To test the significance of the relationship between study variables, the study adopted correlation and

regression analysis. Correlation tested the association between study variables while regression ascertain the effect of performance contracts terms and conditions, performance contracts goal setting and objectives and employees' attitudes and perception on performance contracting on the organisational performance.

The linear regression analysis that was adopted was as follows;

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where;

Y = Organisational Performance

X<sub>1</sub> = Performance Contracting Terms and Conditions

X<sub>2</sub> = Performance Contracting Goal Setting and Objectives

X<sub>3</sub> = Attitudes and Perception of Employees on Performance Contracting

β<sub>1</sub>, β<sub>2</sub> and β<sub>3</sub> regression coefficient for independent variables

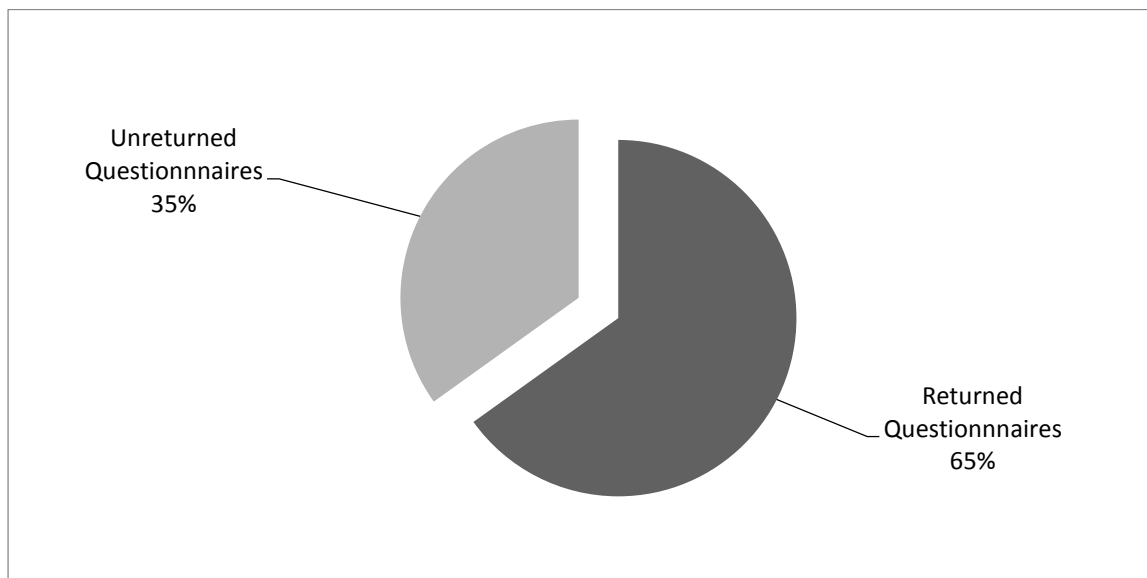
ε = errors term that captures unexplained variance



## CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND DISCUSSION

### 4.1 Introduction

Data analysis in this study employed descriptive and inferential analysis. Descriptive analysis was used in analysing how respondents responded to statement in the questionnaires while the inferential analysis was employed to ascertain the relationship between the variables under the study. This study recorded a response rate of 65% which was considered adequate (Babbie, 2004).



**Figure 4.1 Response Rate**

### 4.2 Summary of the Pilot Results

Prior to conducting the actual study, a pilot tested the suitability of the research instrument in collecting the desired data. A small sample was selected from the target population for the purpose of pilot testing the research instrument and the pilot sample was not included in the final survey. Table 4.1 presents the reliability statistics computed using the pilot study data.

**Table 4.1 Summary of Reliability Statistics**

<b>Reliability Statistics</b>		
<b>Variables</b>	<b>No of Items</b>	<b>Cronbach's Alpha</b>
Performance Contracting Terms and Conditions	5	0.748
Performance Contracting Goal Setting and Objectives	5	0.854
Attitudes and Perception towards Performance Contracting	5	0.701
Organisational Performance	17	0.891

Table 4.1 shows that Cronbach's Alpha obtained for all the variables was above the threshold of 0.7 adopted by the study. These findings implied the scale used in measuring the independent variables and dependent variables was reliable hence the research instrument could be used in the data collection process. On the other hand validity was ensured through experts reviews of the data collection instruments.

### **4.3 Demographic Characteristics**

These included position held in the organisation, level of experience and their level of income. This was justified on the basis of performance contracting terms and conditions, objectives and perception of the employees varies depending on factors such as their position, experience and their level of income.

**Table 4.2 Demographic Characteristics Results**

	<b>Category</b>	<b>Frequency</b>	<b>Percent</b>
Position	Senior Management	14	5.6
	Middle Level Management	30	12
	Low Level Management	106	42.4
	Officer	100	40
	<b>Total</b>	<b>250</b>	<b>100</b>
Experience	less than 2 years	14	5.6
	Between 3 and 5 years	77	30.8
	Between 6 and 10 years	75	30
	Above 10 years	84	33.6
	<b>Total</b>	<b>250</b>	<b>100</b>
Gross Income	Less than kshs 100,000	100	40
	Between kshs 100,000 and 250,000	106	42.4
	Between kshs 250,000 and 350,000	28	11.2
	Above kshs 350,000	16	6.4
	<b>Total</b>	<b>250</b>	<b>100</b>

Table 4.2 shows that 42.4% and 40% of the employees were from low management and officer level while 12% were from middle level management and finally 5% of the respondents were in senior level management position respectively. These findings also reflect the fact that few positions are usually available up the corporate ladders meaning the number of senior management in any corporation is less compared to other level in the corporate structure.

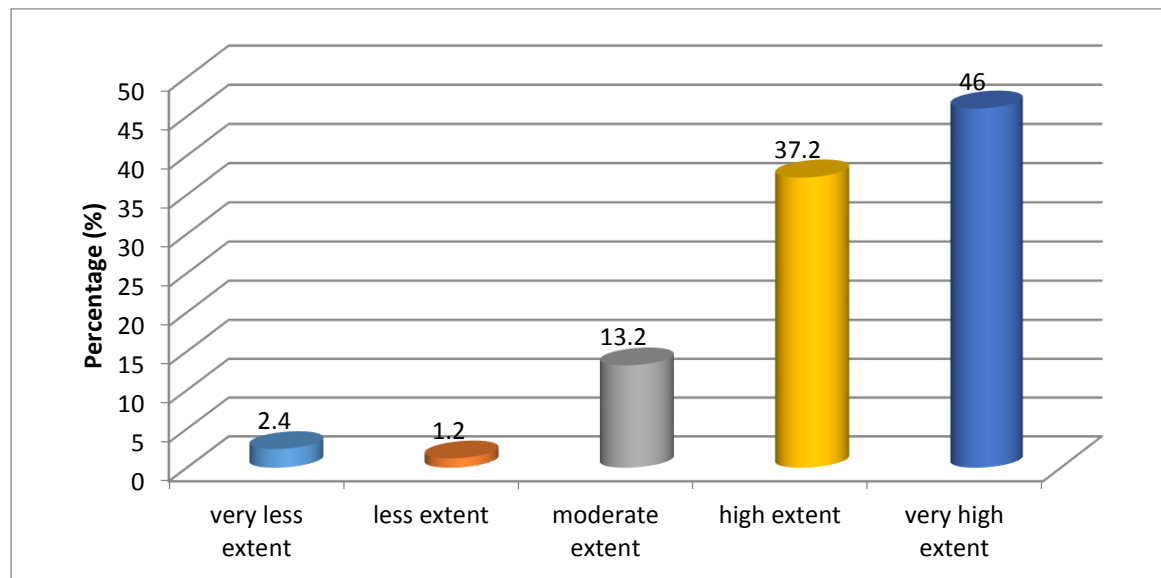
On the level of experience of the respondents, the findings shows that 33.6% were had 10 year and above, 30.8% had between 3 and 5 years while 30% had between 6 and 10 years. Respondents with less than 2 years were the least at 5.6%. Hence the study sample

contained respondents with varying level of experience and this heterogeneity yield varying responses.

Table 4.2 indicates that 40% earned less than kshs 100,000 while 42.4% and 11.2% had level of income of between kshs 100,000 and 250,000 and between kshs 250,000 and 350,000 respectively. Those who earned over kshs 350,000 were the least at 6.4%. This results conforms the findings on the position held by the respondents.

#### 4.4 Performance Contracting Terms and Conditions

This section presents the descriptive results on showing the respondents feedbacks on statement used to measure performance contracting terms and conditions. Figure 4.2 contains the findings on the extent to which performance contracts terms and conditions affected the organisational performance of parastatals in the Ministry of Transport in Kenya.



**Figure 4.2 whether terms and conditions in performance contracts are employee friendly**

Figure 4.2 shows that 46% and 37.2% indicated that terms and conditions in performance contracts are very high extent and high extent employee friendly. Those who indicated that term and conditions in the performance contracts were unfriendly to employees were combined 3.6% with 13.2% being neutral. The finding implied that employees in parastatals under Ministry of Transport found the performance contracts terms and conditions to be friendly. The study concurs with Mohamed (2009) who also showed that performance contracting enable Kenya Revenue Authority to increase revenue reduce customer turnaround time and streamlined reporting and operational structures. Similarly, a study conducted in Tanzania by Shiwa (2014) revealed that performance contracting was an effective tool in performance monitoring of contractors. According to this goal setting theory organisations that are able to formulate clear smart, precise, measureable, and realistic and time bound goals and objectives are better placed to enhance their performance.

Table 4.3 on the other hand contains the response of the respondents on statements used to measure the effect of terms and conditions on organisational performance. The study used mean score and standard deviation in the analysis. The means score were used on the basis that provide accurate assessment on the where majority of the respondents were in terms of response to the statement used. The mean of 4 and above indicated that majority agreed and strongly agreed while 2 and below indicated majority disagreed and strongly disagreed and finally a mean score of 3 indicate majority of the respondent were neutral.

**Table 4.3 Descriptive Results for Performance Contracting Terms and Conditions**

Statements	Mean Score	Standard Deviation
Employees have the ability to handle all the Task assigned to in performance contract	4.18	0.87
Adequate time frame is given to employees in their performance contract	4.18	0.96
Performance contracts have severe penalties	4.27	0.91
Performance contracts have favourable terms and conditions	4.14	0.82
Performance contracts terms and conditions influence their effectiveness	4.30	0.85
<b>Overall Mean</b>	<b>4.21</b>	

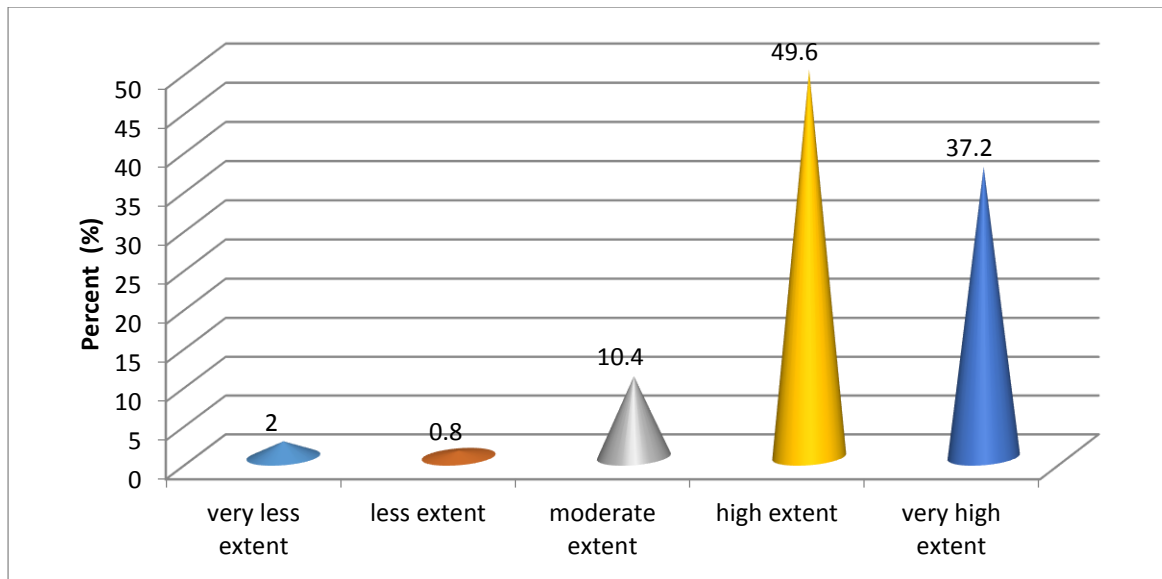
On whether employees have the ability to handle all the tasks assigned to in performance contract, majority agreed and strongly agreed as shown by the mean of 4.18 and the variation was also very small as indicated by the standard deviation of 0.87. The study finding also showed that majority agreed that adequate time frame is given to employees in their performance contract (Mean score=4.18). Similarly, on whether performance contracts have severe penalties, the finding indicated that majority of the respondent agreed.

The study further sought to find out whether performance contracts have favourable terms and conditions and from the results, majority agreed as shown by the mean of 4.14 and finally the mean of 4.30 shown that majority agreed that performance contracts terms and conditions influence their effectiveness. Joyce (2014) also established that performance contracts if managed properly improves the performance of organisations and recommended that administrators of performance contracts must be carefully with terms included in the performance contracts.

These results confirmed that majority of the employees working in parastatal under the Ministry of Transport were of the view that performance contracts had friendly and rational terms and conditions within the understanding of majority which play role in their effectiveness. The study concurs with Mohamed (2009) who also showed that performance contracting enable Kenya Revenue Authority to increase revenue reduce customer turnaround time and streamlined reporting and operational structures. Similarly, a study conducted in Tanzania by Shiwa (2014) revealed that performance contracting was an effective tool in performance monitoring of contractors.

#### **4.5 Performance Contracting Goal Setting and Objectives**

The second objective analysed the influence of goal setting and objectives contained in the performance contracts on organisational performance of parastatals under the Ministry of Transport. The findings presented in Figure 4.3 shows the extent to which respondents felt that goals/targets setting influence the effectiveness of performance contracting.



**Figure 4.3 Whether Goals/Targets Setting Influence the Effectiveness of Performance Contracting**

The findings presented in figure 4.3 shows that 49.6% indicated high extent while 37.2% indicated very high extent on the extent to which goals/target setting influence the effectiveness of performance contracting. The findings implied having clear goals and targets greatly influence the effectiveness of performance contracting among parastatals in the Ministry of Transport. This study finding also concurs with Letangule, Letting and Nicholas (2012) study finding who showed that effective goal setting during performance contracting improved service delivery at the Ministry of Education.

Table 4.4 presents the findings of descriptive analysis on the statements used to determine the effect of the performance contracts goal setting and objectives on organisational performance.



**Table 4.4 Descriptive Results for Performance Contracting Goal Setting and Objectives**

Statements	Mean Score	Standard Deviation
Our organisation goals and target in performance contracts are measurable	4.12	0.89
Our organisation goals and target in performance contracts are precise and easy to understand	4.18	0.87
Our organisation goals and target in performance contracts time bound	4.23	0.77
Our organisation goals and target in performance contracts are realistic to every employee	4.21	0.85
Our organisation has mechanism to provide feedback to all employees on goals/targets in their performance contracts	4.22	0.84
<b>Overall Mean</b>	<b>4.19</b>	

The statement on whether organisations goals and target in performance contracts are measurable had a mean score of 4.12 which implied that majority agreed and strongly agreed. The statement on whether organisation goals and target in performance contracts

are precise and easy to understand also had a mean score 4.18 which also showed that majority agreed and strongly agreed.

The research further sought to find out from the respondents whether their organisations goals and target in performance contracts time bound. The result shows that the statement had a mean score of 4.23 implying that majority agreed and strongly agreed. Similarly, the respondent agreed and strongly agreed that their organisation goals and target in performance contracts are realistic to every employee. The study finally sought to establish whether parastatals in the Ministry of Transport have mechanism to provide feedback to all employees on goals/targets in their performance contracts. The study findings indicated majority agreed as shown by the mean score of 4.22.

The findings in this section implied that performance contracts in parastatals under the Ministry of Transport had goals that targets and all employees were aware of these goals and targets. The goals and targets in the performance contracts were measurable, precise and easy to understand, time bound and realistic to every employee. Such goals and targets provide a desirable room for high organisational performance.

The study findings also concurs with goal setting theory who according to the proponents of this theory such as Ebeclin and Tatum (2005) individuals' employees' performance and overall performance of the corporation can be enhanced through setting clear goals and having well defined targets. Mauya (2015) also established that setting performance targets improves service delivery in the government ministry. Similarly, Letangule, Letting and Nicholas (2012) study finding showed that effective goal setting during performance contracting improved service delivery at the Ministry of Education.

#### 4.6 Employees Attitudes and Perception towards Performance Contracting

The study final objective was to determine whether employees attitude and perception towards perception in the parastatal under the Ministry of Transport and whether these attitudes and perception influence the organisational performance.

**Table 4.5 Descriptive Results for Attitudes and Perception towards Performance Contracting**

<b>Statements</b>	<b>Mean Score</b>	<b>Standard Deviation</b>
Use of performance contracting ensures that everyone is engaged and committed to their work	4.14	0.83
All employees positively welcomed the use of performance contracting	4.25	0.87
Employees enjoy being involved in the performance contracting progress	4.12	0.91
Performance contracting enhanced employee performance	4.21	0.93
Performance contracting improve organisational performance	4.20	0.85
<b>Overall Mean</b>	<b>4.18</b>	

The study asked the respondents whether use of performance contracting ensures that everyone is engaged and committed to their work. The statement had mean response of 4.14 which implied that majority agreed and strongly agreed. On whether all employees positively welcomed the use of performance contracting, the findings showed that majority of the employees agreed as shown by the mean response of 4.25.

The finding further showed that majority as indicated by the mean score of 4.12 agreed and strongly agreed that employees enjoy being involved in the performance contracting progress. The findings also showed the respondents agreed and strongly agreed on whether performance contracting enhanced employee performance and whether performance contracting improves organisational performance as indicated by the mean of 4.21 and 4.20 respectively.

The study findings showed that the attitudes and perception towards performance contracting of employees working at the parastatals in the Ministry of Transport was right and employees enjoyed working under performance contracts. The study in this section concurs with Wanjiru (2016) who established that majority of employees did not actively participate in the process of performance contracting hence they developed a negative perception and attitudes toward the process which affected the effectiveness of the process to deliver its objectives.

#### **4.7 Organisational Performance**

This section analysed the organisational performance of parastatals under the Ministry of Transport. The study used mean and standard deviation to analyse the performance indicators for parastatals in the ministry of transport in Kenya.

**Table 4.6 Descriptive Results for Organisational Performance**

<b>Performance Indicators</b>	<b>Mean Score</b>	<b>Standard Deviation</b>
Quality of services delivery	4.11	0.87
Completion of key projects	4.20	0.89
Growth in Corporation Assets	4.22	0.87
Level of employees commitment and engagement	4.07	0.96
level of employees satisfaction	4.10	0.89
Level of Financial Stewardship and Discipline	4.16	0.89
level of achievement of organisation core mandate	4.25	0.88
Extent of promotion of local content in procurement	4.18	0.83
Achievement of long terms objectives	4.20	0.82
Alignment of the organisation goals with SGDs	4.18	0.93
Extent of Implementation of government Directives	4.10	0.93
Corruption prevention	4.16	0.89
Safety and security of the operating systems	4.22	0.92
competence development	4.19	0.93
Organisation Revenue	4.19	0.96
Efficiency improvement	4.20	0.82
Reduction in marginal operation costs	4.09	0.89
<b>Overall Mean</b>	<b>4.16</b>	

The finding shows that respondent agreed with organisation performance indicators in their parastatals for instance quality of services delivery had a mean score of 4.11; Completion of key projects had mean score of 4.20; growth in corporation assets had a mean score of 4.22, level of employees commitment and engagement had a mean score of 4.07; level of employees satisfaction had a mean score of 4.10; level of financial stewardship and discipline had a mean score of 4.16, extent of promotion of local content in procurement had a mean score of 4.18; level of achievement of organisation core mandate had a mean score of 4.25; achievement of long terms objectives had a mean of

4.20; alignment of the organisation goals with SGDs had mean 4.18; extent of implementation of government directives had a mean 4.10; corruption prevention had a mean of 4.16; safety and security of the operating systems had a mean of 4.22; competence development had a mean of 4.19; organisation revenue had a mean of 4.19; had a mean of efficiency improvement a mean of 4.20; reduction in marginal operation costs had a mean of 4.09. These findings implied that parastatals under the Ministry of Transport performed well in terms of service delivery, revenue generation and organisation effectively and efficiency. The study sought to establish whether high performance by parastatals was attributed to performance contracting by conducting inferential analysis.

## **4.8 Inferential Statistics**

The study employed inferential analysis to determine the strength, magnitude and significance of the association between PC Terms and Conditions, PC Goal setting and Objectives, Employees Attitude and Perception on PC on organisational performance.

### **4.8.1 Correlation Analysis**

This technique was used to determine the strength of the association between PC terms and conditions, PC goal setting and objectives, Employees Attitude and Perception on PC on organisational performance. The correlation results are presented in Table 4.7.

**Table 4.7 Correlation Matrix**

		PC Terms and Conditions	PC Goal setting and Objectives	Employees Attitude and Perception on PC	Organisational Performance
PC Terms and Conditions	r	1			
PC Goal setting and Objectives	r	.429**	1		
Employees Attitude and Perception on PC	r	.476**	.589**	1	
Organisational Performance	r	.790**	.755**	.715**	1
	Sig.	0.000	0.000	0.000	
	N	250	250	250	250
** Correlation is significant at the 0.05 level (2-tailed).					

The findings indicated that the correlation between PC terms and conditions and organisational performance was  $r = 0.790$ ,  $p = 0.000$ ,  $< 0.05$  implying that PC terms and conditions and organisational performance had a strong positive relationship. The findings implied that a clear PC terms and conditions would lead to increase in organisational performance of parastatals under the ministry in Kenya. The study concurs with Mohamed (2009) who also showed that performance contracting enable Kenya Revenue Authority to increase revenue reduce customer turnaround time and streamlined reporting and operational structures. Similarly, a study conducted in Tanzania by Shiwa (2014) revealed that performance contracting was an effective tool in performance monitoring of contractors. Joyce (2014) also established that performance contracts if managed properly improves the performance of organisations and recommended that administrators of performance contracts must be carefully with terms included in the performance contracts.

The findings also indicated that the correlation between PC goal setting and objectives and organisational performance was  $r= 0.755$ ,  $p=0.000$ ,  $<0.05$  implying that PC goal setting and objectives and organisational performance had a strong positive relationship. The study findings implied that inclusion of goals and objectives in performance contracts would lead to organisational performance. The study findings also concurs with goal setting theory who according to the proponents of this theory such as Ebeclin and Tatum (2005) individuals' employees' performance and overall performance of the corporation can be enhanced through setting clear goals and having well defined targets. Mauya (2015) also established that setting performance targets improves service delivery in the government ministry. Similarly, Letangule, Letting and Nicholas (2012) study finding showed that effective goal setting during performance contracting improved service delivery at the ministry of education.

Finally, the findings also indicated that the correlation between employees attitude and perception on PC and organisational performance was  $r= 0.715$ ,  $p=0.000$ ,  $<0.05$  implying that employees attitude and perception and organisational performance had a strong positive relationship. The study findings further showed that having the right attitude and perception towards performance contracts increased organisational performance. The study in this section concurs with Wanjiru (2016) who established that majority of employees did not actively participate in the process of performance contracting hence they developed a negative perception and attitudes toward the process which affected the effectiveness of the process to deliver its objectives



## 4.8.2 Regression Analysis

The study also used regression analysis to test the relationship between independent variables and dependent variables. The findings of model summary, ANOVA and regression coefficient are presented in the following subsection.

**Table 4.8 Regression Analysis Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.871 <sup>a</sup>	.758	.755	.26695
a. Predictors: (Constant), Employees Attitude and Perception, PC Goal setting and Objectives, PC Terms and Conditions				

The model summary results revealed an R-square of 0.758 which implied that Employees Attitude and Perception towards PC, PC Goal setting and Objectives, PC Terms and Conditions were significant predictors of organisational performance in parastatals in the Ministry of Transport in Kenya. Joyce (2014) also established that performance contracts if managed properly improves the performance of organisations and recommended that administrators of performance contracts must be carefully with terms included in the performance contracts.

**Table 4.9 Analysis of Variance (ANOVA)**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	55.009	3	18.336	257.309	.000 <sup>b</sup>
	Residual	17.531	246	.071		
	Total	72.540	249			
a. Dependent Variable: Organisational Performance						
b. Predictors: (Constant), Employees Attitude and Perception, PC Goal setting and Objectives, PC Terms and Conditions						

Table 4.9 showed f-statistics =257.309, and p=0.000 which shows the model had good fit.

These findings implied that PC goal setting and objectives, PC terms and conditions and

employees' attitude and perceptions were significant predictors of organisational performance. The study concurs with Mohamed (2009) who also showed that performance contracting enable organisations to increase revenue reduce customer turnaround time and streamlined reporting and operational structures. Mauya (2015) also established that setting performance targets improves service delivery in the government ministry. Similarly, the study findings agree with Kipkenei, Ndiku, Maiyo and Cherui (2016) the study findings established a significant relationship between employees perception of performance contracting enhanced service delivery

**Table 4.10 Regression Coefficients**

	$\beta$	Std. Error	Beta	t	Sig.
(Constant)	0.167	0.145		1.151	0.251
PC Terms and Conditions	0.388	0.044	0.409	8.863	0.000
PC Goal setting and Objectives	0.362	0.041	0.367	8.718	0.000
Employees Attitude and Perception on PC	0.202	0.041	0.222	4.994	0.000
a Dependent Variable: Organisational Performance					

### **Optimal Model**

*Organisational Performance = 0.167 + 0.388 (PC Terms and Conditions) + 0.362 (PC Goal setting and Objectives) + 0.202 (Employees Attitude and Perception on PC) +  $\epsilon$*

### **Performance Contracting Terms and Conditions and Organisational Performance**

Table 4.10 shows that performance contracting terms and conditions had beta coefficient of  $\beta=0.388$ ,  $p=0.000 < 0.05$  which shows that performance contracting terms and conditions had a positive and significant effect on organisational performance of parastatals. The study findings implied that improvement of terms and conditions in the performance contracts would lead to positive increase in organisational performance.

The study concurs with Mohamed (2009) who also showed that performance contracting enable organisations to increase revenue reduce customer turnaround time and streamlined reporting and operational structures. Similarly, a study conducted in Tanzania by Shiwa (2014) revealed that performance contracting was an effective tool in performance monitoring of contractors. Joyce (2014) also established that performance contracts if managed properly improves the performance of organisations and recommended that administrators of performance contracts must be carefully with terms included in the performance contracts.

### **Performance Contracting Goal Setting & Objectives and Organisational Performance**

The study findings also shows that performance contracting goal setting and objectives had beta coefficient of  $\beta=0.362$ ,  $p=0.000 < 0.05$  which shows that performance contracting goal setting and objectives had a positive and significant effect on organisational performance of parastatals. The study findings implied that improvement of goal setting and objectives in the performance contracts would lead to positive increase in organisational performance. According to this goal setting theory organisations that are able to formulate clear smart, precise, measureable, and realistic and time bound goals and objectives are better placed to enhance their performance.

The study findings also concurs with goal setting theory who according to the proponents of this theory such as Ebeclin and Tatum (2005) individuals' employees' performance and overall performance of the corporation can be enhanced through setting clear goals and having well defined targets. Mauya (2015) also established that setting performance targets improves service delivery in the government ministry. Similarly, Letangule,

Letting and Nicholas (2012) study finding showed that effective goal setting during performance contracting improved service delivery at the Ministry of Education.

### **Employees Attitudes and Perception towards Performance Contracting and Organisational Performance**

The study findings finally shows that employees attitudes and perception towards performance contracting had beta coefficient of  $\beta=0.202$ ,  $p=0.000 < 0.05$  which shows that employees attitudes and perception towards performance contracting also had a positive and significant effect on organisational performance of parastatals. The study findings implied that improvement of employees' attitudes and perception towards performance contracting in the performance contracts would lead to positive increase in organisational performance.

The study in this section concurs with Wanjiru (2016) who established that majority of employees did not actively participate in the process of performance contracting hence they developed a negative perception and attitudes toward the process which affected the effectiveness of the process to deliver its objectives. Similarly, the study findings agree with Kipkenei, Ndiku, Maiyo and Cherui (2016) the study findings established a significant relationship between employees perception of performance contracting enhanced service delivery.

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter summarized the major findings of the study, presented the conclusion made and recommendation for both practice and policy formulation. The findings were summarized on the basis of the findings of regression and correlation analysis. The conclusions made by the study were primarily from the study findings. The recommendations made can be adopted by government organisation to improve management of performance contracts and formulate policies that can be used to improve performance contracting.

### **5.2 Summary**

The purpose of this study was to establish the influence of performance contracting on organisational performance of parastatals in the Ministry of Transport. The study specifically sought to establish the effect of performance contracts terms and conditions, performance contracts goal setting and objectives and employees' attitudes and perception on performance contracting.

The summary of the findings presented in this section are based on regression and correlation analysis. The results show that performance contracting terms and conditions had a positive and significant effect on organisational performance of parastatals. The study findings implied that improvement of terms and conditions in the performance contracts would lead to positive increase in organisational performance.

The study findings also show that performance contracting goal setting and objectives had a positive and significant effect on organisational performance of parastatals. The study findings finally show that employees' attitudes and perception towards performance

contracting had a positive and significant effect on organisational performance of parastatals. The study findings implied that improvement of employees' attitudes and perception towards performance contracting in the performance contracts would lead to positive increase in organisational performance.

### **5.3 Conclusions**

The study established that performance contracting had a positive effect on organisation performance of parastatals in the Ministry of Transport. The study also showed that terms and conditions contained in performance contracts, goals and targets and finally attitudes and perception of employees on performance contracts significantly affected the organisational performance of parastatal in Kenya. Based on these findings, the study concluded that effectiveness of the performance contracts used by government and other private entities rely on employees understanding of the performance contracts.

Performance contracts that are clearly understood in terms of terms and conditions therein, goals/targets and expectations yield better organisational and employees' performance. The employees will further have a positive attitudes and perception on performance contracts they understand and therefore work towards achieving the objectives and targets in the performance contracts. The study also concluded that organisation that include employees in the process of performance contracts stand better chances of achieving high performance compared to organisation where employees are kept in the dark about the whole process of performance contracting.

Performance contracts are effective tools if managed properly with the understanding of all the employees in the corporation. The organisation goals and targets must be narrowed to individuals in the organisations and this where the performance contracts play a significant role in ensuring every individual plays their role in attainment of the overall

organisational goals. Similarly government through the use of performance contracts can use various parastatals to achieve the overall mandate and development agenda by effectively using performance contracts.

#### **5.4 Recommendations**

The study recommends that administrators of performance contract in government parastatals in collaborations with the human resources department in the specific organisation should create awareness among all the employees on terms and conditions contained in performance contracts. The employees must be informed on the nitty gritty of the performance contracts to increase their effectiveness in ensuring improved organisational performance.

The study further recommends that public service commission and other government agencies responsible for constructing performance contracts should ensure that targets and expectations in the performance contracts should be precise, measurable and rational to employees working in those organisations to prevent employees from developing negative attitudes and perception which limits the effectiveness of performance contracts in achieving their main purpose. The study finally recommends that use of performance contracting in performance measurements should be guided with proper founded policies that to ensure that employees on government organisation are not victimized by being forced into unrealistic performance contracts.

#### **5.5 Suggestions for Future Research**

This study focused on the effect of performance contracting on organisational performance among parastatals in the Ministry of Transports. The study recommends that further studies should focus on organisational factors that influence the effectiveness on performance contracts in government institutions. The study further recommends that a

similar study should be conducted among parastatals in other government ministries for comparison of the findings.



## REFERENCES

- Akaranga, E. M. (2008). The process and effects of performance contracting in Kenyan public sector. *MBA Project*.
- Asingo, P. O. (2004). *The institutional and organizational structure of public road transport in Kenya*. Institute of Policy Analysis and Research.
- Awino, Z. B., & Saoli, K. (2014). Management Perception on Performance Contracting Strategy at the City Council of Nairobi, Kenya. *International Journal of Management Studies and Research*, 2(7), 148-159.
- Bamberg, S., Ajzen, I., & Schmidt, P. (2003). Choice of travel mode in the theory of planned behavior: The roles of past behavior, habit, and reasoned action. *Basic and applied social psychology*, 25(3), 175-187.
- Carton, R. B. (2004). *Measuring organizational performance: An exploratory study* (Doctoral dissertation, University of Georgia).
- Gitiba, N. (2010). Performance contracting as a human resource management strategy for managing performance: a case study of Teachers Service Commission.
- Gravelle, H., Sutton, M., & Ma, A. (2010). Doctor behaviour under a pay for performance contract: treating, cheating and case finding?. *The Economic Journal*, 120(542), F129-F156.
- Hansen, S. J. (2006). *Performance contracting: expanding horizons*. The Fairmont Press, Inc..
- Hodge, G. (1998). Contracting public sector services: a meta-analytic perspective of the international evidence. *Australian Journal of Public Administration*, 57(4), 98-110.
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of financial economics*, 3(4), 305-360.
- Jiménez-Jiménez, D., & Sanz-Valle, R. (2011). Innovation, organizational learning, and performance. *Journal of business research*, 64(4), 408-417.
- Joyce, C. R. (2014). *Contract Management Practice and Operational Performance of State Corporations in Kenya* (Doctoral dissertation, Doctoral Dissertation, University of Nairobi).
- Kamoche, K. (2011). Contemporary developments in the management of human resources in Africa. *Journal of World Business*, 46(1), 1-4.
- Kim, S. H., Cohen, M. A., & Netessine, S. (2007). Performance contracting in after-sales service supply chains. *Management Science*, 53(12), 1843-1858.

- Kipkenei, S. K., Ndiku, J., Maiyo, J., & Cherui, R. (2016). Evaluation of Resource Needs and Service Delivery of Performance Contracting in Public Primary Teachers Training Colleges in Kenya.
- Kiruja, E. K., & Mukuru, E. (2018). Effect of motivation on employee performance in public middle level Technical Training Institutions in Kenya. *IJAME*.
- Kleiman, T. (2011). Non-conscious goal conflicts. *Journal of experimental social psychology*, 47(3), 521-532.
- Kobia, M., & Mohammed, N. (2006, December). The Kenyan experience with performance contracting. In *28th AAPAM Annual Round Table Conference*.
- Kobia, M., & Mohammed, N. (2006, December). The Kenyan experience with performance contracting. In *28th AAPAM Annual Round Table Conference*.
- Kompaso, S. M., & Sridevi, M. S. (2010). Employee engagement: The key to improving performance. *International journal of business and management*, 5(12), 89.
- Kothari, C. R. (2004). *Research methodology: Methods and techniques*. New Age International.
- Letangule, S. L., Letting, D., & Nicholas, K. (2012). Effects of performance contract on organization performance: The case study of Kenya's ministry of education. *International Journal of Management & Business Studies*, 2(3), 29-37.
- Letangule, S. L., Letting, D., & Nicholas, K. (2012). Effects of performance contract on organization performance: The case study of Kenya's ministry of education. *International Journal of Management & Business Studies*, 2(3), 29-37.
- Letangule, S. L., Letting, D., & Nicholas, K. (2012). Effects of performance contract on organization performance: The case study of Kenya's ministry of education. *International Journal of Management & Business Studies*, 2(3), 29-37.
- Lijphart, A (2014). *Patterns of democracy: Government forms and performance in thirty-six countries*. Yale University Press, 2012.
- Luo, Y., Huang, Y., & Wang, S. L. (2012). Guanxi and organizational performance: A meta-analysis. *Management and Organization Review*, 8(1), 139-172.
- Mang'ale, S. (2013). Employee perception of performance contracting process in the ministry of local government. *Unpublished Masters Thesis: University of Nairobi*.
- Martin, L. L. (2005). Performance-based contracting for human services: Does it work?. *Administration in Social Work*, 29(1), 63-77.
- Mauya, E. N. (2015). The Importance of Setting Performance Targets on Service Delivery in Performance Contracting At the Ministry of Tourism, Kenya. *Global Journal of Human Resource Management*, 3(5), 1-8.
- Mohamed, M. A. (2009). The Impact Of Performance Contracting On Organizational Performance: A Case Of Kenya Revenue Authority.

- Murambi, D. N., & Bwisa, H. M. (2014). Service Quality and Customer Satisfaction in Public Transport Sector of Kenya: A Survey of Shuttle Travelers in Kitale Terminus. *International Journal of Academic Research in Business and Social Sciences*, 4(9), 402.
- Mwaniki, R., & Gathenya, J. (2015). Role of human resource management functions on organizational performance with reference to Kenya power & lighting company– Nairobi west region. *International Journal of Academic Research in Business and Social Sciences*, 1(5), 432-448.
- Nganga, K. J. (2014). Influence of contextual and cognitive factors on the relationship between performance contracting system and organizational performance in government ministries in Kenya.
- Njiru, B. M. (2008). A survey of capital Investment Appraisal Techniques used by Commercial Parastatals in Nairobi. *Unpublished MBA Project, University of Nairobi*.
- Obong'o, S. O. (2009). Implementation of performance contracting in Kenya. *International Public Management Review*, 10(2), 66-84.
- Obong'o, S. O. (2009). Implementation of performance contracting in Kenya. *International Public Management Review*, 10(2), 66-84.
- Obong'o, S. O. (2009). Implementation of performance contracting in Kenya. *International Public Management Review*, 10(2), 66-84.
- Omoding, G. G. (2013). *Factors Affecting Implementation of Performance Contracts in the Kenyan Civil Service: A Case of Ndhiwa District* (Doctoral dissertation, Kenyatta University).
- Omosa, J., & Josiah, M. M. (2014). *Failure of good corporate governance in state owned corporations in Kenya: towards a more effective parliamentary monitoring role* (Doctoral dissertation, University of Nairobi).
- Propper, C., & Wilson, D. (2003). The use and usefulness of performance measures in the public sector. *Oxford review of economic policy*, 19(2), 250-267.
- Ranganathan, R., & Foster, V. (2011). *East Africa's infrastructure: a regional perspective*. The World Bank.
- Saboori, B., Sapri, M., & bin Baba, M. (2014). Economic growth, energy consumption and CO2 emissions in OECD (Organization for Economic Co-operation and Development)'s transport sector: A fully modified bi-directional relationship approach. *Energy*, 66, 150-161.
- Shale, N. I. (2014). *Role of e-procurement strategy on the performance of state corporations in Kenya* (Doctoral dissertation, Jomo Kenyatta University of Agriculture and Technology).

- Shiwa, R. I. (2014). *The effectiveness of contract management on contractors' performance-a case study of Oil and Gas Company* (Doctoral dissertation, The Open University of Tanzania).
- Székely, F., & Knirsch, M. (2005). Responsible leadership and corporate social responsibility:: Metrics for sustainable performance. *European Management Journal*, 23(6), 628-647.
- Thairu, N. W. (2011). *Implementation Of Performance Contracting At The University Of Nairobi* (Doctoral Dissertation, School Of Business, University Of Nairobi).
- Uusikylä, P., & Virtanen, P. (2009). Public sector performance contracting in Finland. *Public Management Department, Finnish Ministry of Finance*. Retrieved from <http://www.oecd.org/gov/budgeting/1902738.pdf>.
- Van Dooren, W., Bouckaert, G., & Halligan, J. (2015). *Performance management in the public sector*. Routledge.
- Wanjiru, M. R. (2016). *Employee Perception Of Performance Contracting At Multimedia University Of Kenya*.
- Wasike, W. S. (2001). *Road infrastructure policies in Kenya: historical trends and current challenges* (No. 1). Kenya Institute for Public Policy Research and Analysis.
- Wissenbach, U., & Wang, Y. (2017). African politics meets Chinese engineers: The Chinese-built Standard Gauge Railway Project in Kenya and East Africa.
- Wong, C. H. (2004). Contractor performance prediction model for the United Kingdom construction contractor: study of logistic regression approach. *Journal of construction engineering and management*, 130(5), 691-698.
- Xu, P. (2012). *A model for sustainable Building Energy Efficiency Retrofit (BEER) using Energy Performance Contracting (EPC) mechanism for hotel buildings in China*.
- Xu, P., Chan, E. H. W., & Qian, Q. K. (2011). Success factors of energy performance contracting (EPC) for sustainable building energy efficiency retrofit (BEER) of hotel buildings in China. *Energy policy*, 39(11), 7389-7398.
- Young, R. A. (2010). *Determining the economic value of water: concepts and methods*. Routledge.
- Zhang, Y., Han, Q. M., Liu, C. B., & Sun, J. Y. (2008). Analysis for critical success factors of energy performance contracting (EPC) projects in China. In *Industrial Engineering and Engineering Management, 2008. IEEM 2008. IEEE International Conference on* (pp. 675-679). IEEE.

## APPENDEXES

### Appendix I: Letter of Introduction

To whom it may concern

**RE: Data Collection for Academic Purposes**

My name is Loice Sheila Kitsao an MBA student from the University of Nairobi. As part of the program, I am supposed to carry out a research study for the fulfilment of the master's degree. I am current researching on "*effect of performance contracting on organisational performance in Parastatals in Ministry of Transport*". To complete the research a I am required to collect some data that will enable me compile the final report. Attached is a copy of my questionnaire and I kindly request for your participation in filling the questionnaires. Participation in this survey is purely on voluntary basis and withdrawing from it is acceptable.

Yours Sincerely

Sheila Loice

## Appendix II: Research Questionnaire

### Section A: Background Information

This section provides the background information about the respondents. Kindly response to this information as honest as possible

1. Indicate your level in the organisation
  - a) Senior Management ( )
  - b) Middle Level Management ( )
  - c) Low Level Management ( )
  - d) Officer ( )
  
2. How long have worked in the organisation
  - a) less than 2 years ( )
  - b) Between 3 and 5 years ( )
  - c) Between 6 and 10 years ( )
  - d) Above 10 years ( )
  
3. Indicate your gross monthly income in Kshs
  - a) Less than kshs 100,000 ( )
  - b) Between kshs 100,000 and 250,000 ( )
  - c) Between kshs 250,000 and 350,000 ( )
  - d) Above kshs 350,000 ( )

## Section B: Performance Contract Term and Conditions

This section measures the performance contracting terms and conditions and the effect on organisation performance.

1. To what extent are the terms and conditions in performance contracts at your organisation employee friendly

- a) very less extent ( )
- b) less extent ( )
- c) moderate extent ( )
- d) high extent ( )
- e) very High extent ( )

2. Respond to the following statement as honest as possible. To what extent does the organisation adopt the following aspects of performance contradicting terms and conditions? Use the scale of 1=very less extent, 2=less extent, 3 =moderate extent, 4=high extent, 5=very high extent.

Statements	1	2	3	4	5
1 Employees have the ability to handle all the Task assigned to in performance contract					
2 Adequate time frame is given to employees in their performance contract					
3 Performance contracts have severe penalties					
4 Performance contracts have favourable terms and conditions					
5 Performance contracts terms and conditions influence their effectiveness					

Explain how else terms and conditions in performance contracting influence their effectiveness and organisation performance

---



---



---

**SECTION C: Performance Contract Goals Setting and Objectives**

This section measures the performance contracting goals setting and objectives and the effect on organisation performance.

1. To what extent are the goals/targets setting in performance contracts at your organisation influence the effectiveness of performance contracting
  - f) very less extent ( )
  - g) less extent ( )
  - h) moderate extent ( )
  - i) high extent very extent ( )
  - j) very high extent ( )
  
2. Respond to the following statement as honest as possible. To what extent does the organisation adopt the following aspects of performance contradicting goal/target setting? Use the scale of 1=very less extent, 2=less extent, 3 =moderate extent, 4=high extent, 5=very high extent.

Statements	1	2	3	4	5
1 Our organisation goals and target in performance contracts are measurable					
2 Our organisation goals and target in performance contracts are precise and easy to understand					
3 Our organisation goals and target in performance contracts time bound					
4 Our organisation goals and target in performance contracts are realistic to every employee					
5 Our organisation has mechanism to provide feedback to all employees on goals/targets in their performance contracts					

Explain how else goals/targets setting in performance contracting influence their effectiveness and overall organisation performance

---



---



**SECTION D: Employees Attitudes and Perception towards Performance Contracting**

This section intends to measure attitudes and perception of employees about the performance contracts. Use the scale of 1=very less extent, 2=less extent, 3 =moderate extent, 4=high extent, 5=very high extent.

Statements		1	2	3	4	5
1	Use of performance contracting ensures that everyone is engaged and committed to their work					
2	All employees positively welcomed the use of performance contracting					
3	Employees enjoy being involved in the performance contracting progress					
4	Performance contracting enhanced employee performance					
5	Performance contracting improve organisational performance					

Explain how else employees perception about performance contracting influence their effectiveness and overall organisation performance

---



---

## SECTION E: Performance of Parastatals in the Ministry of Transport

To what extent do you agree with the following statements on the performance in your organisation? Use the scale of 1=Very Low, 2=Low, 3 =Moderately High, 4= High, 5=Very High.

Statements	1	2	3	4	5
1 Quality of services delivery					
2 Completion of key projects					
3 Growth in Corporation Assets					
4 Level of employees commitment and engagement					
5 level of employees satisfaction					
6 Level of Financial Stewardship and Discipline					
7 level of achievement of organisation core mandate					
8 Extent of promotion of local content in procurement					
9 Achievement of long terms objectives					
10 Alignment of the organisation goals with SGDs					
11 Extent of Implementation of government Directives					
12 Corruption prevention					
13 Safety and security of the operating systems					
14 competence development					
16 Organisation Revenue					
17 Efficiency improvement					
18 Reduction in marginal operation costs					

### **Appendix III: Parastatals in the Ministry of Transport**

---

Parastatal in the MoT	
1	Kenya Railways Training School
2	Kenya Ports Authority
3	Kenya Airports Authority
4	Kenya Civil Aviation Authority
5	East African School of Aviation
6	Transport Licensing Board
7	Transport Licensing Appeals Board
8	National Transport Safety Authority
9	Kenya Ferry Services
10	LAPSSET Authority
11	Kenya Maritime Authority

---