

**FACTORS THAT INFLUENCE PERFORMANCE CONTRACTING IN THE  
MUNICIPAL COUNCIL OF NAKURU - KENYA**

**BY**

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## DECLARATION

### STUDENT'S DECLARATION

This research project is my original work and has not been presented for a degree at any other university.

Signed .....



Date .....

11/11/10

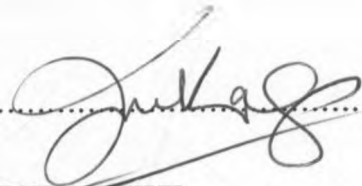
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### SUPERVISOR'S DECLARATION

This research project has been submitted for examination with my approval as the candidate's University Supervisor.

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## **DEDICATION**

This study is dedicated to my wife Wairimu Mbugua and my children - Njeri Mbugua, Nyambura Mbugua and Mwangi Mbugua, for their support, encouragement and patience during the entire period of my study and continued prayers towards successful completion of this course.

May God bless you all.

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## **LIST OF ACRONYMS**

<b>AAPAM</b>	-	<b>African Association for Public Administration and Management</b>
<b>GDP</b>	-	<b>Gross Domestic Product</b>
<b>GOK</b>	-	<b>Government of Kenya</b>
<b>MCN</b>	-	<b>Municipal Council of Nakuru</b>
<b>MOU</b>	-	<b>Memorandum of Understanding</b>
<b>MTEF</b>	-	<b>Medium Term Expenditure Framework</b>
<b>OECD</b>	-	<b>Organization of Economic Co-operation And Development</b>
<b>PC</b>	-	<b>Performance Contract</b>

## ABSTRACT

The primary development goal for any country is to achieve broad-based, sustainable improvement in the standards of the quality of life for its citizens. The public service and in particular the civil service plays an indispensable role in the effective delivery of public services that are key to the functioning of a state economy. When the delivery of services is constrained or becomes ineffective, it affects the quality of life of the people and nation's development process.

The primary objective of this study was to explore the factors that influence performance contracting in the Municipal Council of Nakuru. This was a case study since the unit of analysis is one organisation. Both primary and secondary data were used for the study.

The primary data was collected by use of an interview guide. Secondary data was obtained from government statistical reports, archival records, unpublished university manuscripts, local records, published relevant literature, maps, newspapers and the internet. A content analysis was employed in analyzing the data.

Based on the study findings, the study concludes that embracing performance contracting has resulted in notable improvement in some areas of service delivery in the council. The study also concludes that motivation is important in meeting the set targets in Performance Contract. The introduction of performance contract in the council has enhanced accountability of the management and fostered teamwork among employees.

The study notes that the council is faced with various challenges that negatively impact in the achievement of set targets. They include the lack of adequate skills by some cadres; inadequate dissemination of PC targets to all levels of staff; slow procurement process; corruption; unforeseen circumstances; poor coordination; inadequate financial resources; poor documentation and record keeping; and late release of central government financial transfers.

In order to succeed and reap the full benefits of PC, the council should be vigilant in offering the employees continuous training so as to enable them appreciate the importance of performance contracting. The study also recommends that there should be individual targets other than the council to enable the individuals to measure their performance and achievements.

Key words: performance contracting, service delivery, performance



# CHAPTER ONE: INTRODUCTION

## 1.1 Background to the Study

Performance Contracting is a branch of management science referred to as Management Control Systems and is a contractual agreement to execute a service according to agreed-upon terms, within an established time period, and with a stipulated use of resources and performance standards. Performance contracting is one element of broader public sector reforms aimed at improving efficiency and effectiveness, while reducing total costs (Domberger, 1998). A performance contract constitutes a range of management instruments used to define responsibilities and expectations between parties to achieve mutually agreed results. It is a useful tool for articulating clearer definitions of objectives and supporting innovative management, monitoring and control methods and at the same time imparting managerial and operational autonomy to public service managers. It is therefore a management tool for ensuring accountability for results by public officials, because it measures the extent to which they achieve targeted results (Greer et al., 1999).

The government introduced the concept of performance contracting in the management of state corporations in 1989 as a way of improving service delivery. The concept was introduced on a pilot basis in the five largest cities in Kenya in April 2005. All the other local authorities were put under performance contracts on 30th June 2006.

Kobia and Mohammed (2006) recommended for further research the need to explore to gain insights into factors that enhance or inhibit the implementation of performance contracting in Kenya as a way of further understanding the implementation of the concept in Kenya.

### **1.1.1 The Concept of Performance Contracts**

Kumar (1994) defines performance contract as a Memorandum of Understanding (MOU). MOU is rooted in an evaluation system, which not only looks at performance comprehensively but also ensures improvement of performance managements and industries by making the autonomy and accountability aspect clearer and more transparent.

OECD (1999) defines performance contract as a range of management instruments used to define responsibility and expectations between parties to achieve mutually agreed results. While Smith (1999) argues that a common definition of performance contracting can be found, there are a considerable variety of uses and forms for quasi-contractual arrangements. The objective of performance contracting is the control and enhancement of employees' performance and thus the performance of the whole institution.

The use of Performance Contracts has been acclaimed as an effective and promising means of improving the performance of public enterprises as well as government departments. Essentially, a Performance Contract is an agreement between a government and a public agency which establishes general goals for the agency, sets targets for measuring performance and provides incentives for achieving these targets (Hunter and Gates, 1998). They include a variety of incentive-based mechanisms for controlling public agencies—controlling the outcome rather than the process. The success of Performance Contracts in such diverse countries as France, Pakistan, South Korea, Malaysia, India, and Kenya has sparked a great deal of interest in this policy around the world (Wheeler, 2001).

### **1.1.2 Factors Influencing the Success of Performance Contracts**

The public sector in Kenya is faced with the challenge of poor and declining performance, which inhibits realization of sustainable economic growth. The Public sector had consistently fallen below expectations due to: excessive regulations and controls; frequent political

interference; poor leadership and management; outright mismanagement (Kenya Railways, Kenya Meat Commission); bloated staff establishments; multiplicity of principals and non-performing employees. In addition to regressing economic growth, the decline in Public Service has resulted to poor performance, poor service delivery, degeneration of infrastructure and severe brain drain. The initiatives to adopt Performance Contracts in public institutions have been driven by the changes in political environment in terms of securing better value for money in public services, encouraging greater openness and accountability, and for service improvements in dealing with the general public as consumers (Brown, 1996).

### **1.1.3 Local Authorities in Kenya**

According to a study by the World Bank (2008), Kenya's five largest cities – Nairobi, Mombasa, Kisumu, Nakuru and Eldoret, together accommodate a third of the country's urban population and generate around 70 percent of the gross domestic product (GDP). Nairobi alone accounts for more than 50 percent of the GDP. The cities contribute significantly to national economic growth by increasing productivity at the firm and industry levels via agglomeration economies, increasing household welfare through social mobility and human development, and promoting institutional change.

The cities however are not realizing their full potential. Rapid urbanization has left the cities with huge backlogs in critical infrastructure and basic services resulting in various problems which include proliferation of urban informal settlements; insecurity and violence; environmental degradation; deteriorating public health standards; unemployment, underemployment and misemployment ; shortage of conventional housing; urban sprawl with attendant deterioration in quality of life; destruction of community life and weakening social relations; overcrowding; poverty; increase in street families; traffic congestion; and shortage of water among other problems (Mungai,2008;World Bank, 2008).

The World Bank report also notes that the management of the main cities has been dogged by fragmentation of responsibilities, lack of accountability at the local level, and weak capacities of key institutions. Within 20 years, the majority of the Kenyan population is expected to be living in urban areas. This scale of urbanization will pose further social- economic, environmental and institutional challenges to Kenyan cities. The Government's Vision 2030 has highlighted rapid urbanization as one of the key challenges for the country alongside income inequality, unemployment and low savings.

#### **1.1.4 Municipal Council of Nakuru**

Nakuru is one of the 175 local authorities in Kenya. It is the fourth largest city in Kenya after Nairobi, Mombasa and Kisumu. It is located northwest of Nairobi at the heart of the Great Rift Valley. It lies between latitude 0 10' and 0 20' South and longitude 36 10' East at 1859 meters above sea level. Located along the twin rail and road transport corridor from Mombasa to the Great Lakes region, Nakuru is a stopover for both national and international flow of traffic.

Nakuru is the headquarters of the Rift Valley Province and serves as an administrative, industrial, commercial and service center for the surrounding rich agricultural hinterland. The diversity of geographical, ecological and landscape features, resulting from the volcanic and tectonic activities that accompanied the formation of the Rift Valley characterize the natural assets of the region served by Nakuru (GoK, 2000).

At the Municipal level, Nakuru offers a wide range of services and jobs to the residents within its jurisdiction .These include provision and maintenance of roads, street lighting and storm water drainage; solid waste management, environmental management and conservation, provision of primary health care and primary education facilities, provision and maintenance of recreational facilities ; provision and maintenance of markets and

cemeteries; development control; disaster management; processing of development applications , licensing of businesses , town planning among others.

The council provides the above services through nine departments, each headed by a departmental head. The departments are Town Clerk's, Finance, Engineering, Education, Social Services and Housing, Town Planning, Environment, Public Health and Internal Audit .Policies and major council decisions are made through committees whose members are civic leaders. Each committee is headed by a chairman. The various council committees are Finance, Staff and General Purposes Committee; Town Planning and Works Committee; Education Committee; Social Services and Housing Committee; Environment Committee; Public Health and HIV AIDS Control Committee and Internal Audit Committee.

## **1.2 Statement of the Problem**

The primary development goal for any country is to achieve broad-based, sustainable improvement in the standards of the quality of life for its citizens. The Public service and in particular the civil service plays an indispensable role in the effective delivery of public services that are key to the functioning of a state economy. When the delivery of services is constrained or becomes ineffective, it affects the quality of life of the people and nation's development process (AAPAM, 2005).

A study carried out in the five largest urban centres in Kenya by the World Bank in 2008 found that they performed poorly in many respects. In terms of performance ranking, Nakuru has never featured in the top 50 since the introduction of PC. This study intends to investigate in details the factors that may have contributed to the non perfection of PC in Nakuru. The city of Nakuru has been chosen for detailed study as it was among the first five local authorities in Kenya to be placed under the performance contracting concept.

Performance contracts originated from the perceptions that the performance of the public sector has been consistently falling below the expectations of the public. The decline is associated with excessive controls, multiplicity of principals, frequent political interference, poor management and outright mismanagement (RBM guide, 2005). Job control enables employees to experiment in the workplace and thereby allows employees to generate and enhance creative ideas at work (Frese, Teng and Wijnen, 1999). Furthermore, a high level of job control may make employees feel more responsible for developing creative ideas in order to solve problems or to improve work (Ohly Sonnentag and Pluntke, 2006). In addition, job control is assumed to raise employees' motivation to work on their tasks and should accordingly foster creativity at work (Amabile, 1988).

Previous studies conducted on performance contracting have concentrated on implementation (Kueng, 2000, Opiyo 2006 and Langat, 2006) while one study has tackled the general impact of performance contracting in state corporations (Korir, 2006). However, no known study has been done in Kenya on the effect of performance contracting in town councils. A knowledge gap therefore exists regarding the effect of performance contracting on the local government. The purpose of this research is to determine the factors that influence performance contracting in the Municipal Council of Nakuru. The study will seek answer to the question: which are the factors that influence performance contracting in the Municipal Council of Nakuru?

### **1.3 Research Objectives**

The primary objective of this study was to explore the factors that influence performance contracting in the Municipal Council of Nakuru. The specific objectives of the study were:

- i. To determine the factors that influence performance contracting in the Municipal Council of Nakuru.

- ii. To investigate the effect of performance contracting on the operations at the Municipal Council of Nakuru.

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

A study on the Performance Contracts implementation and their effect in Municipal Councils will be significant if the system is to be sustainable and rolled out to other institutions not on board. Individual ministries, Government departments and public institutions will also be rewarded based on their performance. The performance evaluation of the various departments and divisions in MCN will provide feedback to staff on the factors that influence performance contracting and contribution of PC in operations in MCN and performance. The public service reform secretariat and performance contract steering committee may find the findings useful in deployment of PCs in other service state corporations and government agencies yet to adopt the performance contracting.

## CHAPTER TWO: LITERATURE REVIEW

### 2.1 Introduction

This chapter reviews the information from other researchers who have carried out research in the same field of study. The specific areas covered here are the concept performance contracts, history of performance contracts, rationale for performance contracting, objectives of performance contracts, performance contracting in local authorities in Kenya, factors affecting the success of performance contracting and challenges of performance contracting.

### 2.2 The Concept of Performance Contracts

According to Kobia and Mohammed (2006) performance contract system originated in France in the late 1960s. It was later developed in Pakistan and Korea and thereafter India. In Africa it has been adopted in Nigeria, Gambia, Ghana and Kenya. Performance contracting has been defined in many ways by different scholars. Essentially performance contracting is a branch of management science referred to as Management Control Systems.

A performance contract is a freely negotiated performance agreement between government, acting as the owner of a government agency and the government agency. It is an agreement between two parties that clearly specifies their mutual performance obligations, intentions and responsibilities. A performance contract lists the key result areas, the level of performance expected towards achievement of agreed targets and measurement of that performance. A performance contract has also been defined as a Memorandum of Understanding rooted in an evaluation system, which not only looks at performance comprehensively but also forces improvement of performance managements and industries by making the autonomy and accountability aspect clearer and more transparent. Performance contract has also been defined as a range of management instruments used to define responsibility and expectations between parties to achieve mutually agreed results.



Wheeler (2001) defines Performance Contract as a range of management instruments used to define responsibility and expectations between parties to achieve mutually agreed results. While Needy (1999) argues that a common definition of performance contracting can be found, there are a considerable variety of uses and forms for quasi-contractual arrangements. In this study, performance contracting is used as a management tool to help public sector executives and policy makers define responsibilities and expectations between the contracting parties to achieve common mutually agreed goals.

Performance contract is the agreement between management and subordinates on the responsibilities and standards for the subordinate for the budget period (Montana 2000). There are two parts to the performance contract: Statement of the key responsibilities and standards of performance for each of these responsibilities (Musa, 2001).

The Government of Kenya (2003) defines performance contract (PC) as a freely negotiated agreement between Government, acting as the owner of a Public Enterprise, and the Public Enterprise. It clearly specifies the intentions, obligations, responsibilities and powers of the parties, addresses economic/social/other tasks to discharge for economic or other desired gain, organizes and defines tasks so management can perform them systematically and purposefully with reasonable probability of achievement, and assists in developing points of view, concepts and approaches to determine what should be done and how to go about doing it.

### **2.3 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 to mention just a few. In Kenya the concept of performance contracting was first introduced in the management of State Corporation in 1989 as a way of responding to

the needs of the taxpayers. This was against the backdrop of the government's key priorities of implementing and institutionalizing public sector reforms that would lead to an efficient, effective and ethical delivery of services to the citizens. A Parastatal 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. These policies were 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 were to be used to make transparent the cost of social services and to compensate the parastatals for their net costs (Sensitization Training Manual, 2004).

According to Kobia and Mohammed (2006) the following lessons were learnt from the African experience of performance contracting: To institutionalize and create ownership of the performance contract, public enterprise managers and citizens should be involved and let to manage the process rather than external parties, adequate resources should be allocated to achieve the set targets, few realistic targets should be selected rather than attempting too many objectives at once, government should honour their financial and other commitments to the enterprise.

#### **2.4 Rationale for Performance Contracting**

Performance contracts are founded on the maxim that what gets measured gets done and that if you cannot see and measure success, you cannot reward it and to correct failure the same has to be recognized first. Performance contracts have their origins in the perception that the performance of the public sector has consistently fallen below the expectations of the public. Declining performance in the public service has resulted in poor service delivery,

degeneration of infrastructure among other problems. Problems inhibiting the performance of government agencies have been identified to include excessive controls, multiplicity of principals, frequent political interference, poor management, outright mismanagement, manager's not being businesslike, intangible objectives and results, lack of self interest and lack of competition (Drucker, 1977; Herzlinger, 1996; GoK, 2005).

## **2.5 Objectives of Performance Contracts**

Implementation of performance contracts is intended to improve public service delivery by ensuring that top managers are accountable for results. They also aim to revise declining public service efficiency and to focus attention to national priorities ; institutionalize performance culture; instill accountability and transparency; increase productivity as well as giving autonomy to government agencies( Kobia and Mohammed,2006; Ndungu,2009 ).

## **2.6 Performance Contracting In Kenya**

In order to move the implementation of the PSRP forward, the government developed and launched the strategy for performance improvement in the public service in 2001. The strategy sought to increase productivity and improve service delivery. It outlined the actions that were necessary to imbed long lasting and sustainable change in the way public services are offered. Underpinning this strategy was the Results Oriented Management (ROM) approach; which makes it necessary to adjust operations to respond to predetermined objectives, outputs and results. The adoption of this approach therefore demanded a paradigm shift in Government. This called for a transformation from a passive, inward looking bureaucracy to one which is pro-active, outward looking and results oriented; one that seeks 'customer satisfaction' and 'value for money'. Consequently the ministries'/departments were required to develop strategic plans which reflected their objectives derived from the 9<sup>th</sup> National Development plan, the poverty Reduction Strategy Paper and based on the Medium

Term Expenditure Framework (MTEF), Sectoral Priorities and Millennium Development Goals (MDGs) (Kobia and Mohammed, 2006).

The government adopted performance contracting in the public service in order to ensure that there is reduction or altogether elimination of reliance on exchequer funding for government agencies, which are expected to generate revenue or make profit, as an objective basis for divesting loss making government agencies and also compel the agencies to give a return to the shareholders by paying dividends or surplus, ensure that parastatals improve performance to deliver quality and timely services to the citizen and instil a sense of accountability and transparency in service delivery and the utilization of resources (RBM Guide, 2005).

The objectives of introducing performance contracts in Kenya were to improve service delivery to the public by ensuring the top-level managers are accountable for results, reverse the decline in efficiency and ensure that resources are focused on attainment of key national policy priorities of the government (Parachuted projects), institutionalize performance oriented culture in the public service through introduction of an objective performance appraisal system, measure and evaluate performance, link reward to measurable performance, facilitate the attainment of desired results, instil accountability for results at the highest level of the government, ensure that the culture of accountability pervades all levels of the government machinery and strengthen and clarify the obligation required of the government and its employees in order to achieve agreed target (GOK, 2001).

The introduction of performance contracting in Kenya in 2003 was geared towards several expected outcomes; improved performance, decline in reliance on Exchequer funding, increased transparency in operations and resource utilization, increased accountability of 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, create a fair and accurate impression on the performance, achievement of greater autonomy and creation of enabling legal and regulatory environment (GOK, 2001).

Although, the real impact of the process is yet to be fully visible, there is clear evidence of radical improvement particularly in remarkable and unprecedented improvement in profit generation for commercial state corporations, significant improvement in service delivery and operations by such ministries as immigrations and registration of Persons, Agriculture, Provincial Administration and Internal Security, Health, finance and Water, significant improvement in operations and services by Nairobi City Council, Kisumu and Nakuru Municipalities and unprecedented improvement in service delivery and operations by the bulk of state (AAPAM, 2005).

## **2.7 Factors Affecting the Success of Performance Contracting**

The objectives of performance contracts in the civil service include: improving service delivery to the public by ensuring that top-level managers are accountable for results, and in turn hold those below them accountable, reversing the decline in efficiency and ensuring that resources are focused on attainment of the key national policy priorities of the Government; institutionalizing performance oriented culture in the civil service through introduction of an objective performance appraisal system; measuring and evaluating performance; linking reward to measurable performance and strengthening and clarifying the obligations required of the Government and its employees in order to achieve agreed targets (AAPAM, 2005).

From the government's side, the contracts are first of all expected to instill accountability for results at all levels of the organization and seeks to transform the performance culture to match that of the private sector thereby translating into improved service delivery in the public sector. Secondly, the contractual employment aims to reduce reliance by the

parastatals on the exchequer funding, compel them to give return to the Government through payment of dividends or remittance of surpluses and also inculcate in the public sector the culture of linking reward to measurable output. Thirdly, the contractual employment policy emphasizes placement of management of public sector organizations in the hands of competent managers as good as those in the private sector (Lienert, 2003).

With respect to changes in customer relations, new interfaces and instruments are installed, resulting in increased client-orientedness. Most organisations at regional level now have an ombudsman service (OECD, 1997). This channel for customer complaints is used by the ombudsmen as a valuable instrument for introducing a client focus. In many cases, the press pays major attention to their reports. Moreover, the functioning of the ombudsman service is hampered, in some cases, by cumbersome complaint procedures (e.g. you have to pay for a complaint) or by the insufficiency of financial and human resources (Needy, 1999).

## **2.8 Challenges of Performance Contracting**

Governments are increasingly faced with the challenge to do things but with fewer resources and above all, differently performance contracts can be defined as a range of management instruments used to define responsibilities and expectations between parties to achieve mutually agreed results. Performance contracting provides a framework for generating desired behaviour in the context of devolved management structures. Employers view 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.

Parastatals in many African countries are confronted with many challenges, which constrain their delivery capacities (Lienert, 2003). They include the human resource factor, relating to shortages of manpower in terms of numbers and key competencies and lack of appropriate

mindsets that are necessary to support effective service delivery. On the other hand the gradual erosion of ethics and accountability has continued to bedevil the public sector in the delivering of public services to the people effectively. Public sector reforms meant to address these challenges have achieved minimal results (AAPAM, 2005).

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter presents the methodology used to carry out the study. It further describes the research design, type and source of data, research instruments used, data collection and data analysis.

### **3.2 Research Design**

This was a case study since the unit of analysis is one organisation. A case study is an in-depth investigation of an individual, institution or phenomenon (Mugenda and Mugenda, 2003). According to Yin (2003), a case study allows an investigation to retain the holistic and meaningful characteristics of real life events. The primary purpose of a case study is to determine factors and relationships among the factors that have resulted in the behaviour under study. Since this study sought to identify the effect of performance contracting on performance, a case study design was deemed the best design to fulfill the objectives of the study. Primarily data collected from such a study is more reliable and up to date.

### **3.3 Data collection**

Both primary and secondary data were used for the study. This study was carried out in the Municipal Council of Nakuru, the fourth largest of the 175 local authorities in Kenya. The primary data was collected by use of an interview guide. The use of an open-interview strategy enabled better exposure of the interviewees' personal perspectives, their deeper thoughts, emotions and ambitions (Bromley, 1986; Paton, 1990). This less structured approach allowed the interviews to be much more like conversations than formal events with predetermined response categories, permitting the respondents' views to unfold, rather than the predisposition of the researcher (Marshall and Rossman, 1997, p. 80). The interview



guide was administered to the Council's chief officers, political leaders, the Council's Performance Contracting Secretariat, other council staff, service users and other stakeholders. Secondary data was obtained from government statistical reports, archival records, unpublished university manuscripts, local records, published relevant literature, maps , newspapers and the internet.

### **3.4 Data Analysis**

A content analysis was employed in analyzing the data. The content analysis was used to analyze the respondents' views about the performance contracting at the Municipal council of Nakuru using the perspective of Marshall and Rossman (1997, p. 111), who see qualitative data analysis "as a search for general statements among categories of data".

## **CHAPTER FOUR: DATA ANALYSIS, INTERPRETATION AND DISCUSSION**

### **4.1 Introduction**

This chapter presents data findings from the field, its analysis and interpretations thereof. The data was gathered through interview guides and analyzed using content analysis. The data findings were on the factors that influence performance contracting in the municipal council of Nakuru.

According to the data found, all the respondents projected in the previous chapter to be interviewed were interviewed which makes a response rate of 100%. The commendable response rate was achieved after the researcher made frantic efforts in booking appointments with the heads of departments despite their tight schedules and making phone calls to remind them of the interview.

### **4.2 Demographic Information**

The study, in an effort to ascertain the interviewees' competence and conversance with matters regarding the council sought to establish their demographic information. According to the study findings, majority of the respondents were in the age bracket of between 40 – 50 years. On the duration that the interviewees had worked for their current organization, the interviewees indicated that they had worked for their current organization for an average duration of 17 years. The interviewees were in different designations such as Accountant, Cleaning Superintendent, Principal Administrative Officer, Senior Public Health Officer, Senior Clerical Officer, Ag. Director of Environment, Divisional Fire Officer, Director of Social Services and Housing, Administrative Officer, Garage Superintendent, Electrical

Foreman, and Survey Assistant II. The interviewees' responses hence had the advantage of good command and responsibility being that they were senior managers and had experience and aptitude owing to their years of experience in the council. They worked in the various departments within the council.

#### **4.3 Factors That Influence Performance Contracting**

The interviewees intimated that the performance indicators in the council included financial indicators such as revenue collection, cost reduction on implemented programmes and activities, utilization of funds relative to the budget; non financial indicators such as customer satisfaction, staff/employee satisfaction; operational indicators such as maintenance and repair, development control through building plans approval, compliance with by- laws, efficiency of garbage collection and development index.

The interviewees were further requested to indicate the organizations performance depending on the relevant indicator given. From the responses given, the interviewees were in accord that on the aspect of revenue collection the performance was over 100%, cost reduction was 45%, utilization of funds was rated at 99%, customer satisfaction was rated at 65%, the needs pool is never matched by the level of the realized revenue receipts, garbage collection was 60% efficient, employee satisfaction was 60% since the work environment is very good indicated by the promotion of staff and a low employee turnover rate.

The interviewees were also requested to indicate the extent that the targets set in performance contracting were achieved in the council. From the study findings, majority of the interviewees agreed that there was 80-100% achievement of the targets set in performance contracting due to the fact that these targets were voluntarily set and in most cases they set achievable targets. The interviewees further confided that they set individual targets in their area of operation to measure their ability to achieve set goals within the stipulated period of

time such as revenue targets for revenue collectors, garbage collection and other service delivery areas. These were based on the sectoral annual work plan that were further split to an individual daily work plan.

The researcher proceeded to enquire whether staff motivation was important in meeting the set targets in Performance Contract at the council. The interviewees agreed that motivation was important in meeting the set targets in Performance Contract at the council especially if the target was beyond their routine operations and where the targets were seen as a council activity citing that in the cost centers where the staff have been promoted or awarded salary increment, the sense of commitment and responsibility has been enhanced and a sense of attachment to the institution readily acknowledged. The employees were also honored through certificates, promotion or salary increment. However, some of the interviewees indicated that some of the employees were unsatisfied due to work overloads, poor grades and lack of an objective appraisal system.

The interviewees were also in agreement that there has been teamwork in the institution with the introduction of performance contracting saying that there was always consultation and coordination of work from town clerk and the heads of departments. Others indicated that the introduction of the concept has generally unified the workers and the civic wing to embrace the culture of team work approach. Teamwork has been enhanced since most of the activities are interrelated and the PC secretariat has representatives from all departments. Others indicated that it is not as it ought to be as individual departments seem to concentrate on their departmental targets hence not facilitating other departments to achieve the council's set targets. On how well the interviewees understood the term performance contract, the interviewees indicated that it was a measure of services rendered within a stipulated time

period while others said it was a contract whose objective was to ensure that set goals which must be realistic and measurable were attained within a given time.

The respondents were further requested to explain the problems they faced as employees in implementation and reporting in performance contracts. According to the responses given, the interviewees were in accord that they faced problems due to lowly skilled cadres of employees who were unable to implement the performance contract; inadequate dissemination of information i.e. not everyone understood what was expected of them or the targets set; unforeseeable challenges, for example natural calamities like flooding; lack of procurement of materials on time (slow procurement process); lack of adequate resources; political interference; lack of relevant skills among players; lack of modern equipment; lack of staff motivation; management corruption; the quarterly reporting ,data collection and compiling being delayed at departmental level; poor coordination of the council PC secretariat and lack of management support.

The interviewees were also requested to comment on what they felt should be incorporated in their organizations performance review and contracting to ensure it improved in productivity. The interviewees suggested that there should be training to workers (capacity building) and motivation where they had excelled ; creating awareness to staff of all cadres; encourage wider consultation in both target setting and review; allocate more time to the review process; the PC should be given an in-house approach for all staff to be brought on board for all to justify the earnings got; there should be staff motivation and appraisal; all staff should set individual targets other than setting targets for the council only; and that there should be regular departmental meetings to discuss challenges, achievements and aspirations.

The interviewees agreed unanimously that the objectives of performance contracts at the council were to streamline work and to instill discipline and improve service delivery, improve financial management and enhance urban environmental management.

#### **4.4 Effect of Performance Contracting on the Operations**

From the interviewees, the notable service areas that had benefited or witnessed a visible change since the introduction of performance contract were town beautification ; garbage collection; upgrading of the roads in town; management of public complaints; council's image i.e. prompt payment of suppliers and creditors; service delivery; implementation of capital projects; health service delivery and security enhancement through street lighting.

The interviewees believed to a great extent that the introduction of performance contract in their organization had enhanced accountability of the management to a very great extent in that the employees have become responsible for what they signed for in the performance contract. Others were in agreement that it had enhanced accountability to more than 85% due to centralization and computerization of cash collection.

The interviewees intimated that the factors that affect the performance contracts evaluation in the organization were the fact that it can lead to promotion in cases where targets were met and can lead to loss of jobs when targets were not realized; strict procurement procedures due to time frames on absorbing capital development; delayed disbursement of central government receipts; lack of trained employees; inadequate finance; lack of clear guidelines on requirement of supporting documents during evaluation; reports being compiled as a crash programme; lack of effective secretariat to report progress; different interpretation of variables by evaluators; and lack of discipline and ethics among staff (corruption).

To enhance evaluation of performance contract, the interviewees recommended that the council should have a realistic procurement plan for all capital projects ; there should be proper documentation and record keeping on all the target areas; there should be monthly departmental evaluation; facilitation and adequate resources should be set aside on all the target items; setting up of an effective council PC secretariat; there should be individual targets rather than the council's ones; and ensure that qualified people are involved in the evaluation for better results. Other interviewees intimated that before ministerial evaluation there should be consultative meetings including all key section heads and that there should be involvement of a supplementary team to the management that should monitor all performance contract activities throughout the contract period and document the same from initial steps. Some of the interviewees were in accord that the council should also conduct internal seminars to sensitize all employees on PC and before setting targets, funds for implementation should be available.

#### **4.5 Discussion**

From the previous studies, Brown, (1996) established that the initiatives to adopt Performance Contracts in public institutions have been driven by the changes in political environment in terms of securing better value for money in public services, encouraging greater openness and accountability, and for service improvements in dealing with the general public as consumers. This collates with what the study found that the introduction of performance contract in their organization had enhanced accountability of the management to a very great extent in that the employees have become responsible for what they signed for in the performance contract.

AAPAM, (2005) established that the objectives of performance contracts in the civil service include: improving service delivery to the public by ensuring that top-level managers are accountable for results, and in turn hold those below them accountable, reversing the decline in efficiency and ensuring that resources are focused on attainment of the key national policy priorities of the Government; institutionalizing performance oriented culture in the civil service through introduction of an objective performance appraisal system; measuring and evaluating performance; linking reward to measurable performance and strengthening and clarifying the obligations required of the Government and its employees in order to achieve agreed targets. The findings of this study correlates with these prior literature that performance contracting can help to enhance delivery of services as indicated in the aspect of revenue collection where the performance is over 100%, utilization of funds is rated at 99% at the council and employees of the council are satisfied since the work environment is very good indicated by the promotion of staff and a low employee turnover rate.

From the study, it was found that some of the challenges in performance contracting were strict procurement procedures due to time frames on absorbing capital development; delayed disbursement of central government receipts; lack of trained employees; inadequate finance; lack of clear guidelines on requirement of supporting documents during evaluation; reports being compiled as a crash programme; lack of effective secretariat to report progress; different interpretation of variables by evaluators; and lack of discipline and ethics among staff (corruption). Some of these concur with what Drucker, (1977) and Herzlinger, (1996) found that the decline is associated with excessive controls, multiplicity of principals, frequent political interference, poor management, lack of self interest and lack of competition and outright mismanagement.



# CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.1 Introduction

This chapter presents the summary of key data findings, conclusion drawn from the findings highlighted and recommendation made thereto. The conclusions and recommendations drawn are in the quest of addressing the research question and achieving the research objective which was to explore the factors that influence performance contracting in the municipal council of Nakuru.

## 5.2 Summary

The study found that the performance indicators in the council include financial indicators like revenue collection, cost reduction on implemented programmes and activities, utilization of funds relative to the budget; non financial indicators such as customer satisfaction, staff/employee satisfaction; and operational indicators like maintenance and repair, development control through building plans approval, compliance with by- laws, efficiency of garbage collection and development index.

On the organizations performance depending on the relevant indicator given, the study established that on the aspect of revenue collection the performance was over 100%, cost reduction was 45%, utilization of funds was rated at 99%, customer satisfaction was rated at 65%, the needs pool is never matched by the level of the realized revenue receipts, garbage collection was 60% efficient, employee satisfaction was 60% since the work environment is very good indicated by the promotion of staff and a low employee turnover rate.

The study, on the extent that the targets set in performance contracting are achieved in the council, found that there was 80-100% achievement of the targets set in performance contracting due to the fact that these targets are voluntarily set and in most cases they set achievable targets. It was further clear from the study that the employees set individual targets in their area of operation to measure their ability to achieve set goals within the stipulated period of time such as revenue targets for revenue collectors, garbage and service delivery areas. These targets are based on the sectoral annual work plan that further cascades to an individual daily work plan.

On whether staff motivation is important in meeting the set targets in Performance Contract at the council, the study established that motivation is important in meeting the set targets in Performance Contract at the council especially if the target is beyond their routine operations and where the targets are seen as a council activity citing that in the cost centers where the staff have been promoted or awarded salary increment, the sense of commitment and responsibility has been enhanced and the sense of belonging to the institution image wise noted. The employees are also honored through certificates, promotion or salary increment. It was also clear from the study that there has been teamwork in the institution with the introduction of performance contracting in that there is always consultation and coordination of work from town clerk and the heads of departments. The introduction of the concept has generally forced the worker and the civic wing embrace the culture of team work approach. Teamwork has been enhanced because most of the activities are interrelated and the PC secretariat has representation from all departments. On how well the employees understand the term performance contract, the study found that that it was a measure of services rendered within a stipulated time period and that it is a contract whose objective is to ensure that goals are set and which must be realistic measurable and attainable within a given time.

The problems faced by employees in implementation and reporting in performance contracts were cited as lowly skilled employees who are unable to implement the performance contract; inadequate dissemination of information i.e. not everyone knows what is expected of them or the targets set ;unforeseeable challenges like natural calamities such as floods; lack of procurement of materials on time (slow procurement process); lack of resources; political interference ;lack of relevant skills among players, lack of modern equipment; lack of staff motivation; management corruption; the quarterly reporting ,data collection and compiling being delayed at departmental level; poor coordination of council's PC secretariat and lack of management support.

The objectives of performance contracts at the council were to streamline work and to instill discipline and improve service delivery, improve financial management and enhance urban environmental management.

On the effect of performance contracting on the operations, the study found that the notable service areas that have benefited or witnessed a visible change since the introduction of performance contract were town beautification; garbage collection, upgrading of the roads in town; effective management of public complaints; council's image i.e. prompt payment of suppliers and creditors; service delivery; implementation of capital projects; health service delivery and security enhancement through street lighting.

The introduction of performance contract in the council has enhanced accountability of the management to a very great extent in that the employees have become responsible for what they signed for in the performance contract and accountability is enhanced by centralization and computerization of cash collection.

The factors that affect the performance contracts evaluation in the organization were the fact that it can lead to promotion in cases where targets were met and can lead to loss of jobs

when targets are not met; strict procurement procedures due to time frames on absorbing capital development; delayed disbursement of central government receipts, lack of trained employees; inadequate finance; lack of clear guidelines on requirement of supporting documents during evaluation; reports being compiled as a crash programme; lack of effective secretariat to report progress; different interpretation of variables by evaluators and lack of discipline and ethics among staff (corruption).

### **5.3 Conclusion**

Based on the study findings, the study concludes that performance contracting can help to enhance delivery of services as indicated in the aspect of revenue collection where the performance is over 100%, utilization of funds is rated at 99% at the council and employees of the council are satisfied since the work environment is very good indicated by the promotion of staff and a low employee turnover rate. The targets set in performance contracting are achieved in the council due to the fact that these targets are voluntary and realistic.

The study also concludes that motivation is important in meeting the set targets in Performance Contract at the council. The sense of commitment and responsibility has been enhanced and the sense of belonging to the institution image wise noted. Further, there has been teamwork in the institution with the introduction of performance contracting in that there is always consultation and coordination of work from town clerk and the heads of departments.

The study further concludes that since the introduction of performance contract various service areas have benefited or witnessed a visible change. The introduction of performance contract in the council has enhanced accountability of the management in that the employees

have become responsible for what they signed for in the performance contract and also due to centralization and computerization of cash collection.

The study concludes that though PC has the above positive outcomes it faces a number of challenges which hinder its successful implementation. These include the lack of adequate skills by some actors ;lack of adequate dissemination of PC related information to all cadres of staff; slow procurement process; inadequate resources; late financial transfers from the central government; corruption; political interference; delays in reporting by concerned departments and poor coordination of the PC secretariat.

#### **5.4 Recommendations**

Since the study has established that PC helps in improving service delivery the council should upscale on the areas where it has noted positive changes and also address the challenges.

Since the study established that some of the employees are unsatisfied due to overwork, low salary grades and the fact that the appraisal system is not objective and in order to succeed and reap the full benefits of PC, the council should build capacity for all cadres of staff, match work with skills, ensure all staff have individual performance targets linked to the council targets and establish an objective annual appraisal system that relates rewards to achievement of agreed targets. The council should create awareness to the staff on the dangers of corruption and take appropriate action where the same has been reported.

To ensure that the council performance review and contracting increases productivity of the council, this study recommends creation of awareness of PC to staff of all cadres; practice wider consultation in both target setting and review; and prepare for the review by allocating more time at the council level .The study also recommends that there should be individual targets other than the council to enable the individuals to measure their targets achievements

and there should be regular departmental meetings to discuss challenges, achievements and aspirations.

The study also recommends that to enhance evaluation of performance contract, the council should ensure that it has a realistic procurement plan ; practice proper documentation and record keeping and hold monthly departmental evaluation meetings.

The study also recommends that the council should set up an effective working secretariat with a coordinator and ensure that qualified people are involved in the evaluation for better results.

Before ministerial evaluation there should be consultative meetings including all key section heads and that there should be involvement of a supplementary team to the management that should monitor all performance contract activities throughout the contract period and document the same from initial steps.

This study also recommends that the government should honour its obligations in the PC agreement by releasing the agreed central to local government financial transfers at the agreed time to enable the council plan and realize its targets.

### **5.5 Limitations of the Study**

Being a case study on one council the data gathered in this study might differ from other councils. This is because different councils adopt different strategies that differentiate them.

The study however, constructed an effective research instrument that sought to elicit general and specific information on the factors that influence performance contracting.

The study faced both time and financial limitations. The duration that the study was to be conducted was limited hence exhaustive and extremely comprehensive research could not be carried out on factors that influence performance contracting. Due to limited finances the

study could not be carried out in all establishments and depots of Municipal Council of Nakuru. The study, however, minimized these by conducting the interviews at the council's headquarters since this is where strategies are made and rolled out to other offices that implement the PC.

### **5.6 Recommendations for Further Research**

The study recommends that further studies should be conducted on the factors that influence performance contracting in other municipal councils and the city council so as to allow for generalization on the factors that influence performance contracting in the local authorities.

### **5.7 Implication on Policy and Practice**

These findings imply that performance contracting can help to enhance delivery of services in the council and other government agencies and the employee role in the process cannot be ignored. The council should thus upscale on the areas where it has noted positive changes and also address the challenges.

The findings of the study will be useful to the Performance Contracting Department as it will provide feedback on the challenges faced by the council and other agencies while implementing performance contracts. The Department can use the findings of this study to address some of the challenges while issuing future Performance Contracting Guidelines.

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## APPENDICES

### Appendix 1: Introduction Letter



University of Nairobi

P. O. Box 30197

NAIROBI

The Town Clerk

Municipal Council of Nakuru

P. O. Box 124

NAKURU

Dear Sir/Madam,

**RE: MBUGUA MUNGAI: D61/P/8404/2005**

The above named person is a Postgraduate student at the School of Business, University of Nairobi. As part of the requirements for the award of the Degree of Master of Business Administration the student is required to undertake a research project in his area of specialization. The student is carrying out research on “Factors that influence Performance Contracting in the Municipal Council of Nakuru-Kenya”. This is therefore to request you and other members of your organization to facilitate the student by allowing him access to information that will enable him to successfully undertake the research.

Yours faithfully

Jeremiah Kagwe

**STUDENT SUPERVISOR**

**Appendix 2: Interview Guide**

**FACTORS THAT INFLUENCE PERFORMANCE CONTRACTING IN THE  
MUNICIPAL COUNCIL OF NAKURU- KENYA**

**SECTION A: DEMOGRAPHIC INFORMATION**

1. Age bracket.....
2. For how long have you worked for your current organization? .....
3. Your current designation:.....

**SECTION B: FACTORS THAT INFLUENCE PERFORMANCE CONTRACTING**

1. What are the performance indicators in your council?

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2. Depending on the relevant indicator above and in your opinion, please indicate the organizations performance?

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3. In your opinion, to what extent are the targets set in performance contracting achieved?

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4. Do you set individual targets in your area of operation?

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5. Is staff motivation important in meeting the set targets in Performance Contract at your organization?

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6. In your opinion do you think there has been teamwork in your institution with the introduction of performance contracting? Explain your answer

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7. How well do you understand the term performance contract?

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8. Briefly explain the problems you face as employees in implementation and reporting in performance contracts.

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9. Give comments on what you think should be incorporated in your organizations performance review and contracting to ensure it increases in productivity.

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10. What are the objectives of performance contracts at the council?

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**SECTION C: EFFECT OF PERFORMANCE CONTRACTING ON THE OPERATIONS**

11. Which notable service areas have benefited or witnessed a visible change since the introduction of performance contract?

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12. To what extent do you believe that the introduction of performance contract in your organization has enhanced accountability of the management?

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13. What are the factors that affect the performance contracts evaluation in your organization?

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14. What would you recommend to your organization to enhance evaluation of performance contract?

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