

**THE PERCEIVED INFLUENCE OF  
PERFORMANCE CONTRACTING ON THE  
PERFORMANCE OF  
KISUMU POLYTECHNIC, KENYA**

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**A Research Project Submitted in Partial Fulfillment of the Requirement for the Award  
of the Degree of Master of Business Administration (MBA), School of Business,  
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## DECLARATION

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

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This project has been submitted for presentation with my approval as the University supervisor

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I wish to dedicate this research project to my mum Gladys, brothers Sam, Pat and Bob. They have been a source of encouragement to me at all times. Their encouragement made me to continue with the work even when I wanted to give up on the project and these has been a source of strength me.

## **LIST OF ACRONYMS**

|              |   |
|--------------|---|
| <b>GOK</b>   | Government of Kenya   |
| <b>MBO</b>   | Management by Objective                                       |
| <b>MDG</b>   | Millennium Development Goals                                  |
| <b>NPM</b>   | New Public Management   |
| <b>OCED</b>  | Organization for Economic Cooperation and Development         |
| <b>PC</b>    | Performance Contracting                                       |
| <b>RBM</b>   | Result Based Management                                       |
| <b>TIVET</b> | Technical Industrial vocational and Entrepreneurship Training |

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## **ABSTRACT**

Public institutions in Kenya have been known for poor performance. In the recent past the trend has change due to introduction of performance contracting where employees set and meet the work goals or targets from their employer hence the need to enable them to perform. The study was conducted to investigate the perceived influence of performance contracting on the performance of Kisumu Polytechnic. The objective of the study was to establish the perceived influence of performance contracting on the performance of Kisumu Polytechnic. This study uses the goal setting theory. The research design was descriptive research design and the target population was 265 staff of Kisumu Polytechnic. A sample of 79 was used in the study. Primary data was collected from the respondents using questionnaire. The data was analyzed using descriptive statistics. The study found that indeed performance contracting has helped to improve performance of Kisumu Polytechnic to a greater extent in terms of quality of service delivery, achievement of performance contract targets though to a moderate extent it helped the institution to response to customers needs, it enable the cost of service to be fair. Based on the study findings, it was concluded that in order to improved performance commitment by top management is mandatory, performance contracting has a positive influence on service delivery. The study recommend that incentives to be awarded employees should be adequate in order to motive staff. The researcher recommends the enhancement of feedback mechanism. In addition it further recommends the participation and involvement of all staff in the process of setting performance targets.

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

In this era of globalization and rapidly changing business environment, there is need for organization to effectively adopt management strategies for managing performance aim at achieving organizational effectiveness. An organization long term success in meeting its objectives rests with its ability to manage employees' performance and ensuring that performance measures are consistent with the organization's needs. Effective performance management systems require employees and supervisors to work together to set performance expectations, review results, assess organizational and individual needs and plan for the future (Mello 2001). Armstrong (2000) argues that strategies for managing performance is aim at achieving increased organizational effectiveness, better results for individuals and teams and higher levels of skills, competence, commitment and motivation. To enhance performance in the public sector governments has adopted performance contracting strategy which has created significant influence on the organizational performance. Performance orientation and management have been closely associated with New Public Management (NPM) reforms in some OECD countries notably in Australis, Britain and New Zealand, for two decades (OECD 1995; Ferlie el al 1996; Flynn 1997). However, during the past decade a number of developing countries have agreement or contract as a management tool to restructure and improve the performance to public sector organizations (Islam 1993; Commonwealth Secretariat 1997; Larbi 1999).

Lane (1987) defines contract as binding agreement between two or more parties for performing or refraining from performing specific act(s) in exchange for lawful consideration. On the other hand performance management under which performance

contracting falls has been defined as a systematic, data oriented approach to managing people at work that relies on positive reinforcement as a major way of maximum performance (Daniels, 1989). Managing better organizational performance to a sustainable level can be effectively be achieved through many ways such as management By Objective (MBO) and Management Control Systems (Armstrong,2001) Performance contracting as part of strategic management is therefore, defined as a binding agreement between two or more parties for performing or refrains from performing some specified act (s) over a specific period of time. It is a branch of management control systems which provide information that is intended for managers in performing their jobs. Performance contracting system originated in France in the late 1960s and was developed in Pakistan and Korea and later in India (OECD, 1997). The concept has been effectively adopted in Bangladesh, Pakistan and Sir Lanka, Brazil, Bolivia, Mexico, Uruguay and Venezuela. The system was adopted in developing countries in Africa, Benin, Ghana, Morocco and Senegal (Trivedi, 1990). In pursuit of the goal of performance improvement within the public sector, New Public Management (NPM) emphasizes on the adoption of private sector practices in the Public institutions (Balogun, 2003). In the quest of this same goal Kenya introduced performance contracting not only to improve service delivery but also to refocus the mind set of public away from a culture of inward looking toward a culture of business as focused on customers and results. A critical factor that can influence the success of performance contracting is how employees perceive it. Cole (1997) defines employees as individuals who, over a given time, invest proportion of their lives in their organizations. Unlike other resources in an organization, employees are complex human beings, who are influenced by and can act on, the basis of their

perception. Employee's perceptions in an organization are crucial to its success, or otherwise success of any business rests on its employees.

The study will be based on goal setting theory by Latham and Locke (1979). The theory proposes that organizational performance increases when individuals set goals and more so if the goals are specific. The theory established an intimate link between goal setting and positive workplace performance. Lack of goals may lead to agency achieving objective not related to mandate. This lack of clarity can be attributed to the facts that most of the public agencies have to deal with multiple principles who have multiple interests (Tivedi 2002). The principle of goal setting plays a key role in performance contracting and it strongly influences the performance of an organization.

Kisumu Polytechnic continues to face major challenges in terms of performance according to Kisumu Polytechnic Strategy Plan 2012/2017. Being a public institution with several perceptions that performance at public institutions has consistently fallen below expectations of the public has made the institution to adopt performance contracting as a strategy of performance management to improve on service delivery. Since the introduction of performance contracting there has been a general perception that performance contracting has influence the performance culture in Kisumu Polytechnic. However the institution has been experiencing downward trend in the last performance evaluation hence promoting the study. Kisumu Polytechnic Strategy Plan (2012/2017).

### **1.1.1 Concept of Perception**

Bennett (1997), define perception as a process in which one interprets sensory inputs such as smell, sight, sound or feelings while Bouditch and Bouna (1997), define

perception as the process by which an individual selects, organizes and interprets stimuli into a meaningful and coherent picture of the world. Perception is the dynamic and complex way in which individuals select information (stimuli) from environment, interpret and translate it so that a meaning is assigned which will result in a pattern of behaviour or thought (Mullins, 2005). While Nellson (2008) asserts that perception is the primary vehicle through which we come to understand ourselves and our surrounding. In appraising performance, managers use their perceptions of an employee's behavior as a basis for the evaluation.

Individuals are all unique, act and react based on perceptions, make decisions and take actions based on what they perceive to be reality. It is important therefore to understand the concept of perception to enable us to determine what factors influence individual performance. Perception depends not only on the physical stimuli but also on the relationship of stimuli to the surrounding field and on conditions within the individual. The key note is that perception can vary widely among individuals exposed to the same reality (Mullins, 2005). As asserted by Robbins, Judge, and Vohra, (2011) that the factors reside in the perceiver; in the object, or target, being perceived; or in the context of the situation in which the perception is made.

Mullins (2005) suggests that perceptions are influenced by stimuli. These are any physical, visual or verbal communication that can influence an individual's response. He identifies two important stimuli that affect individual behaviour as environmental stimulus and organizational stimuli. Perception is something that each one of us deals with and the factors that influence perception can impact on our work place hence on the overall performance of the organization. The success of performance contracting on organizational performance may be perceived differently among the stakeholders since different people may physically see the same thing but they may have their own

individual interpretation of what it is. Consequently employees will perceive issues differently and will have different expectations from the same employer. Employee's perceptions in an organization are crucial to its success since they are the driving force behind the success, or otherwise success of any business rest on its employees.

### **1.1.2 Performance Contracting**

Performance contract is a freely negotiated performance agreement between government acting as the owner of government agency and the agency itself (Performance contract steering committee,2005). It the agreement between two parties that clearly specify their mutual performance obligations and the agency itself .The OECD (1999) defines performance contracts as a range of management instruments used to define responsibilities and expectations between parties to achieve mutually agreed results. It goes on to argue that performance contracting offers a framework for generating desired behaviours in the context of devolved management. Thus performance contracting is a tool for managing relationships between two parties in order to achieve agreed results. Performance contracting is considered as essential tool for enhancing good governance and accountability for the results in the public institutions. It established goals and set targets for measuring performance, and provides incentives for achieving the targets, also set mechanism for controlling the outcome rather than the process.

An organization's purpose defines the ways in which it relates to its environment. If this purpose is fulfilled, the organization will survive and prosper (Luo and Peng, 1999). The main purpose of performance contracting according to Armstrong and Baron (2004) is to ensure quality service to the public in transparent manner for the survival of the organization. Hope (2001) points out that performance contract

specifies the mutual obligations, intentions and responsibilities which a government requires a public officials or management of public agencies or ministries to meet over stated period of time. The fundamental principle of performance contracting is the devolved management style where emphasis is management by processes. It therefore provides a framework for changing behaviours in the context of devolved management structures. The objective of performance contracting is the control and enhancement of employee's performance and thus the performance of the whole institution.

### **1.1.3 Organizational Performance**

Performance is a quantified results or a set of obtained finding, just as it can refer to the accomplishments, execution or carrying out anything ordered or undertaken, to something performed or done, to a deed, achievement, or exploit, or to the execution or accomplishments of work (Stolovitch and Keeps, 1992). In the world of work, performance may be undertaken to mean either the way in which business is conducted or a successful outcome. Managers must be concern with each interpretation because both the processes and the outcomes affect organizational success. Individuals are constantly assessing performance and outcomes in daily life using personal set of scales based on aspirations and previous performance (Ingram and McDonnel,1996).To perform is to carry through to completion. A performance period has three phases; first it being with intention that is the desire to achieve a result, then it engage into action that is the means to achieve the desired result and it concludes with the outcome. Performance is what the organization delivers to stakeholders in financial and operational terms (Andrews,2014). Organization performance relates to how successfully an organized group of people with a

particular purpose performance a function. An organization's performance involves identifying outcomes that it wants to achieve, creating plans to achieve those outcomes, carrying out those plans, and determining whether the outcomes were achieved. Success is achieving the planned outcomes (Robert, 2009). Performance Management is a continuous process of identifying, measuring and developing the performance of individuals and aligning performance with the strategic goals of organization (Aguinis, 2009). To achieved high level of organization's performance effective monitoring and performance evaluation system is needed within the organization. Performance Management is the principal set of practices by which control and evaluation is manifested in the organizations. Control is defined as any process that is used to align actions of individuals (Snell, 2006).

Organization Performance comprises the actual output or results of an organization as measured against its intended outputs (goals and objectives). All high performing organizations must be interested in developing and deploying effective performance management systems, since it is only through such systems that they can remain high performing and competitive organization, GOK (1997).

#### **1.1.4 Tivet Institutions**

The use of technical, industrial, vocational and entrepreneurship training (TIVET) in Kenya encompasses technical training institutions, demonstrations center, youth polytechnic, national youth service skills development center. TIVET programmes are offered at Youth Polytechnic, Institutions of Technology, Technical Training Institutions and National Polytechnics. The national polytechnic includes Kisumu Polytechnic, Eldoret Polytechnic, while Mombasa and Kenya Polytechnic have been upgraded to Technical University of Mombasa and Technical University of Kenya



respectively. There are also other institutions offering TIVET programmes spread across other ministries as well as private institutions ([leckenya.or.ke/index.php/program/tvet](http://leckenya.or.ke/index.php/program/tvet).)

The Government of Kenya, through the Ministry of Higher Education Science and Technology recognizes science and Technology as vital to social and economic development of the country. In the year 2012 Kenya Government published a TIVET Bill (2012). The Bill is acclaimed as the sectoral response to the forgoing MDGs and Vision 2030 imperatives.

To achieve its mandate, TIVET (2012) specifically provides for the establishment of technical and vocational education and training system, governance and management of institutions offering technical and vocational training, assessment examination and certification. The challenge for Kisumu Polytechnic is to align its mandate to the aspirations of national development strategy Vision 2030 and the TIVET Bill 2012.

### **1.1.5 Kisumu Polytechnic**

The institution was started in 1967 as a technical secondary school. In 1988 the institution was upgraded to Technical Training institute. The aim was to produce practical oriented human resource, competent in application of technical skills. In 1996, the institution became a national polytechnic and was inaugurated in 1997. The institution is registered under the Education Act Cap 211. The Polytechnic is mandated to offer courses in certificate, Diploma and Higher National Diploma levels in various disciplines. The mission is to provide a high quality technical, vocational and entrepreneurship training, research and innovation in partnership with stakeholders to produce globally competitive graduates. While the vision is to be

world class polytechnic in the provision of technical, vocational, entrepreneurship training and research. ([www.kisumu-poly.ac.ke](http://www.kisumu-poly.ac.ke)).

The performance of the institution continues to face major challenges related to both the institutional infrastructure and operating environment. The rapid expansion of the institution in terms of the student's population has put the performance of the organization into sharp focus (Kisumu Polytechnic Strategic plan 2013/2017). Being a public institution with perceptions that performance of public institutions has consistently fallen below expectations of the public and with the government requirement has made the management of Kisumu Polytechnic to embrace performance contracting as a strategy to improve on service deliver as from the year 2008/2009 to date. Since then, Performance Contracting has been perceived to influence the performance culture in Kisumu Polytechnic. The idea of annual organization plans, where every department prepares annual plans, set targets, manages the performance and finally evaluate or measure the performance has partly been perceived to influence the performance of the institution. This new development has contributed to efficiency in utilization of resources, and streamlined service delivery as indicated in the Customer satisfaction survey carried out in 2012.

## **1.2 Research Problem**

The shortcomings of the public sector were seen as organizational problems capable of solution by appropriate application of political will, powerful ideas and managerial will. Performance contracting has therefore been invariably seen as the solution to reversing falling service delivery in the public service. The introduction of performance contract is perceived to have enhanced quality performance in the public sector. Performance contracting aims at providing means through which better results

can be obtained from organization, teams and individuals by managing performance within agreed framework of planned goals. The performance contracting specifies the mutual performance obligations, intentions and responsibility of two parties. It organized and defined task so that management could performed them systematically, purposefully and with reasonable probability of achievement. Organizational performance relates to how successfully an organization archived its obligations and responsibility. Some of the factors adversely affecting performance include: excessive regulations and controls, frequent political interference, poor management, outright mismanaged and bloated staff establishment (RBM Guide, 2005). Despite its application in the public sector their is still variations in performance.

Before the introduction of performance contract, Kisumu Polytechnic task force Identified limitation that might have hinders the full realization of its mandate. These are categorized as infrastructure and equipment, institutional governance, training programs and staff development. These limitations existing in the human resource includes weak performance standards, weak succession plan, remuneration disparities and inappropriate employee's altitudes which eventually lead to poor performance (Kisumu Polytechnic Strategy Plan June 2012/ June 2017). As a learning institution Kisumu polytechnic initially performed well; however the polytechnic experienced a downward trend during the last two evaluations. This performance raised concern among management consequently, the justifications of the study.

Several local studies have been done on performance contracting for example Choke (2006) focused on the perceived link between strategy planning and performance contracting in state corporations and suggested that better performance is a question of involving everyone in goal setting, Korir (2006) he focused on the impact of performance contracting in state corporations with specific reference to East African

Portland Cement Company. His finding was that all departments were involved in the setting and negotiating the contract targets. However, the team involved in the negotiation was not adequately represented and therefore recommended that more stakeholders should be involved in the negotiation stage. He found that performance contracting accelerated corporate governance practices and reduced political interference in running of the organization. There was resistance and lack of ownership in the process of performance contracting because managers were not involved in the development of performance indicators, and its classification.

Njiru (2007) in his study of strategic change in the implementation of performance contract in state corporation in Kenya, observed that where as most state corporation in Kenya reported impressive developments in carrying out change initiative a lot of challenges curtailed effective change management for successful implementation of performance contracting. Langat (2006), studied the factors necessary for the design of a good performance contract in state corporations. The study established that for a successful design of performance contract it is necessary for an organization to clearly define its vision, mission and strategic objectives.

However, despite research findings from these studies, no previous research has focused on the effect of performance contracting on performance. The research will therefore seek identify the perceived influence of performance contract on the performance of Kisumu Polytechnic. This statement of the research problem lead to the following research question; what is the perceived influence of performance contracting on the performance of Kisumu Polytechnic?

### **1.3 Research objective**

To determine the perceived influence of performance contracting on the performance of Kisumu Polytechnic.

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

The finding of this research will be of importance to the top and middle level managers in the learning institutions as it will provide them with an in depth understanding of the influence of performance contracting.

Scholars/researchers will find it important as the study will increase to the body of knowledge in this area.

The study may be useful to the management and staff of Kisumu Polytechnic to address the shortcomings in its performance strategies

The government agencies charged with the responsibility could use the results of the study to sensitizing and train officers and managers on important issues to consider on performance contracts.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter reviews literature related to the perceived influence of performance contracting on the performance. The review is based on the objective of the study. The Researcher also took critical analysis of what other researchers have found out about the perceived influence of performance contracting on the performance. The chapter discussed the theoretical foundation, performance contracting, organizational performance and performance contracting and organizational performance. The issue is discussed as below.

### **2.2 Theoretical Foundation**

This study will be based on Goal Setting theory. The Goal Setting theory as developed by Latham and Locke (1979) states that motivation and performance are higher when individuals set specific goals, when goals are difficult but accepted, and when their are feedback on performance. Precipitation in goal setting is important as a means of getting agreement to the setting of higher goals. Difficult goals must be agreed and their achievement reinforced by guidance and advice. Finally the feedback is vital in maintaining motivations, particularly towards the achievement of even higher goals. Goal theory plays a key role in performance management, Armstrong (2009).

Goal setting theory, highlights four mechanism that connect goals to performance outcomes; they direct attention to priorities, they stimulate effort, they challenge people to bring knowledge and skills. Goal theory is a theory that proposes that all human action and behaviour are motivated by a goal which is important to the

performance of organization. According to Locke and Latham there are five goal setting principle that can improve our chance of success; clarity, commitment, challenge, feedback and task complexity, Armstrong (2009). The theory established an intimate link between goal setting and positive workplace performance and it predict that people will channel their efforts towards the accomplishment of their goals, which in turn affect performance. The implementation of performance contracting focus on the above principles. The theory assert that the goal setting strongly influence the performance of the organization.

### **2.3 Performance Contracting**

Performance contracting is a branch of management control system and part of strategic management. Performance contracting strategy is part of broader public sector reform aimed at improving efficiency and effectiveness in the management of Public services (Kobia, 2006). The problems that have inhibited the performance of government agencies are largely common and include excessively control, multiplicity of principles, frequent political interference, poor management and outright mismanagement (Result Based Management Guide, 2005).

Performance contracting is a key tool of performance management which in turn is also a distinct element of public sector reforms. Performance contracting as used in the public specify the standards of performance or quantifiable targets that a government requires public official or management of public or state own agency, ministries or department to meet over a stated period of time, and also provide incentives for achieving these targets (Petrie',2002; Hope,2001). At the end of the stated period performance is measured against standards or set targets. As part of performance management orientation in government, the common purpose of

performance contracting are to clarify the objectives of public service institutions and their relationships with the government, and to facilitate performance evaluation based on results instead of conformity with bureaucratic rules and regulations. Hale (2004) noted that from a performance improvement perspective employees deserve clear direction from management, employees should have a clear understanding on what the organization is try to accomplish and what role they play in making it happen (Pfeffer,1998).

The performance contracting is one of the broader public sector reforms aimed at improving efficiency and effectiveness while reducing total costs as asserted by Armstrong and Baron (2007) that the main purpose of performance contracting is to ensure delivery of quality service to the public in a transparent manner for the survival of the organization. The reforms initiatives by the government were important for a number of reasons. First they created awareness among senior officials across government department of the need to rethink efforts to improve service delivery. Second they built a strong foundation of understanding regarding the key role of work performance in improving service delivery, and third the reforms opened the door to adoption of new ideas and approaches, which had been widely applied in successful service delivery reform in other countries (GOK, 2007).

## **2.4 Organizational Performance**

Performance has been defined not only on what people achieve, but also on how they achieve it. High performance results from appropriate behaviours, especially discretionary behavior, and the effective nurse of the required knowledge, skills and competencies, Armstrong (2009).Organization performance comprises the actual output or results as measured against its intended output (goals or objectives).



Organization performance management is about delivering performance or effectively implementing appropriate strategy. According to Richard et al (2009) organization performance encompasses three specific areas of a firm outcome ; financial performance, product market performance and stakeholders return, however in the recent years performance is measured in terms of financial, customer service, social responsibility and employees stewardship. Organizational management is the process through which an organizational strategy is formulated and then implemented through organization of work, people, finance and technology (Pearce and Robinson, 2005)

Performance focuses not only on the individual employees, but also on the teams, processes, and organization as a whole. Public agencies have a greater challenge to define and measure results than private sector organization whose results are almost exclusively tied to the financial goals. Effective performance will help organization to raise individual performance, foster ongoing employees and supervisor development, and increase overall organizational effectiveness. Organization performance is a continuous self renewing cycle, consisting of initiating and agreeing on performance plan (performance contract), implementing the plan (managing performance) and achievement. (Andrews, 2014).

## **2.5 Performance Contracting and Organizational Performance**

Performance development agreements form the basis for development, assessment and feedback in the performance management process. They define expectation according to role profile, which sets out role requirements in terms of key result areas and the competency required for effective performance. The role profile provides the basis for agreeing objectives and methods of measuring performance and assessing level of competency reached. Performance contract or agreement emerges from the

analysis of role requirements and the performance review, Armstrong (2009). The difference between performance contracting and performance management is that the former focused on the outcome and results while the latter is the integrating force that is concerning with what people do, how they do it and what they achieve, it is therefore concerned with both the input and the output. In order to be effective in conducting business or rendering service organizations need to implement management procedures and practices that will yield desired results. Under the performance contract, target are set and the area of concern are the outcomes rather than the processes and it is the processes that do determine the outcomes. (Ahorani,1986).

Performance contracting has been viewed as a management processes that is supposed to improve and meet the organizational performance objectives, by doing this, performance contracting support the organizational performance objective strategy. The purpose of the performance objectives is to articulate market requirements in the way that will be useful to operations (Slack and Lewis, 2008). These performance objectives when achieved will have an influence on the organizational performance. There are five generic performance objectives, namely: quality, speed, dependability, flexibility and cost hence understanding them is very important because the organizational performance depend on the attainment of the objectives. In the public sector, delivery of services should be considered to meet these performance objectives and performance contracting aim at ensuring that these are attained. The expanded outcomes of the introduction of performance contracts include improved service delivery, improved efficiency in resources utilization, and institutionalization of performance oriented culture in the public sector, measurement and evaluation of

reliance of public agencies on the exchequer funding and enhancing overall performance, these are aimed at achieving the organizational performance objective.

Performance needs to be assessed at the end of the contract period to determine whether the organization performance objective is being achieved. Adoption of performance contracting in the civil service has enable various organizations to successful assessed and improve their performance. Performance evaluation and by extension contracting is therefore based on the premise that what get measured get done. According to Boyne (2010), performance management in the public sector is generally compose of three interlinked elements; performance measurement, target settings and rewards or sanctions. Similarly, Hood el al (2001) identify three key components of all regulatory regimes; information gathering, setting standards and behavior modifications. The there elements identified by Boyne and Hood et al (2001) critical to performance contracting is performance measurement.

Performance measurement is traditionally viewed as a element of planning and control cycle that captures the performance data, enables control feedback, influence work behavior (Flamholtz, Days and Tsui 1985) and monitor strategy implementation (Simons, 1990). In holist view, performance measurement plays a key role in development of strategic plan and elevating the achievement of organizational objectives (Ittner and Larcker, 1998) as well as acting as a signaling and learning device (Simons, 1990).

Goal/target setting involves managers and subordinates jointly establishing and clarifying employee's goals. It influence the organizational performance through the influence of what people do by focusing their behavior in the direction of goals, energize behavior, motivate people to put forth the effort to reach difficult goals that

are accepted and clarifying duties and responsibilities. The first element of goal settings is the establishing goals that are perceived as challenging but realistic and to which there is high level of commitment. It involves having employees to participate in goal setting process is as to increase motivation and performance. The level of success of organizational performance strategy will depend on the degree of participation in performance contracting process and in planning and on personal acceptance of goals, indicators and targets set.

Motivating and rewarding good performance for individuals or units are key success factors in effective strategy implementation (Shirley, 1983). According to Cummings and Worsley (2005), organizational rewards are powerful incentives for improving employees and work group performance. The principle of performance contracting provides an original combination of indeed operational autonomy in the field of service delivery and a better strategic control by the organization. Performance contracting has a direct bearing on the productivity of the organization. The effect can be examined from four fronts: human resource management, financial management and internal organization and external relations (Bouckaert, et al, 1999). Lings (2004) argues that if properly executed performance contracting has a significant positive effect on the staff commitment and satisfaction. On the other hand, Slater (1999) reiterated that performance contracting if well executed may increase real speed in decision making and built self confidence in employees.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter presents methods and procedures that will be employed in the study. The chapter defines the research design; target population, data collection and data analysis are explained in the chapter.

### **3.2 Research Design**

According to Sekaran and Roger (2011), research design is a master plan that specifies the method and procedures for collecting and analyzing the needed information. Cooper and Schindler (2006) argue that research design constitutes the blue print for collection, measurement and analysis of data to achieve stated objectives. This study will use a descriptive research design. Cooper and Schindler (2008) define descriptive studies as those studies whose objective is to explain a phenomenon, to estimate a proportion of a population with similar characteristics and to discover association among different variables. This design is preferred for this study because of the large number of respondents, although the unit of analysis is the organization.

### **3.3 Target Population**

Borg and Gall (1989) stressed that target population refer to all members of a real hypothetical set of people, events or objects to which a researcher wishes to generalize the outcome of recent studies. The target population of the study will be 265 staff of Kisumu Polytechnic, both teaching and non teaching. These will include only the permanent staff and fulltime employees.

### 3.4 Sample Design

The sample sizes will be 79 of the total population. This is 30% of the target population and conforms to the statistical provision, Mugenda and Mugenda, (2004). It covers all employees (Top Management, Middle Management and Subordinates) since all of them are in the performance contract. The main factor considered in determining the sample size was the need to keep it manageable enough (Warwick and Lininger, (1975). This enable the researcher to derive from it detailed data at an affordable cost in terms of time, finances and human resource (Mugenda, 1999). Stratified random sampling technique will be use to sample 79 employees as indicated in the Table 3. 1.

**Table3.1 Sampling Procedure**

| <b>DEPARTMENT</b>               | <b>POPULATION</b> | <b>SAMPLE SIZE<br/>30%</b> |
|---------------------------------|-------------------|----------------------------|
| Administration                  | 16                | 5                          |
| Electrical Engineering          | 19                | 6                          |
| Mechanical Engineering          | 13                | 4                          |
| Automotive Engineering          | 10                | 3                          |
| Applied Science                 | 18                | 5                          |
| Institutional Management        | 13                | 4                          |
| Computer Studies                | 13                | 4                          |
| Buildings and Civil Engineering | 14                | 14                         |
| Business Studies                | 27                | 8                          |
| Liberal Studies                 | 13                | 4                          |
| Entrepreneurship                | 08                | 2                          |
| Non-Teaching Staff              | 101               | 30                         |
| <b>TOTAL</b>                    | <b>265</b>        | <b>79</b>                  |

Source: Kisumu Polytechnic Strategic Plan, (2012/2017)

### **3.5 Data Collection**

Primary data will be used in the study. It will be collected using a semi structured questionnaire. Likert type rating scales will be used. Questions will be closed ended. The questionnaire will have two sections. Section A will collect demographic data while section B will obtain data on the perceived influence of performance contracting on performance. The questionnaires will be administered through drop and pick latter method.

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

The data for the study will be analyzed using descriptive statistics, such as means, standard deviations, percentages and frequency distributions. The data will be analyzed using descriptive statistics statistical by package for social sciences (SPSS). The results will be presented in tables and figures.

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

### **4.1 Introduction**

This chapter provides the analysis of data, presentation and interpretation of the finding. The study sought to determine the perceived influence of performance contracting on the performance of Kisumu Polytechnic. The researcher had dispatch a total of 79 questionnaires of the sampled respondents. However of those, 60 respondents are the ones who managed to submit their questionnaire to the researcher. This constituted 75% which is a good representation of the sample and thus, the study was heading towards achieving its objective.

### **4.2 Demographic Information**

This section presents personal information and organization background pertaining to department, gender, age, length of continuous service, educational qualification and management level.

**Table 4.1: Department**

|  |                          | <b>Frequency</b> | <b>Percent</b> |
|--|--------------------------|------------------|----------------|
|  | Administration           | 3                | 5.0            |
|  | Electrical Eng.          | 7                | 11.7           |
|  | Mechanical Eng.          | 2                | 3.3            |
|  | Automotive               | 2                | 3.3            |
|  | Applied Science/Computer | 6                | 10.0           |
|  | Institutional Mgt.       | 1                | 1.7            |
|  | Building & Civil         | 3                | 5.0            |



|              |                  |           |            |
|--------------|------------------|-----------|------------|
|              | Business Studies | 9         | 15.0       |
|              | Liberal Studies  | 2         | 3.3        |
|              | Entrepreneur     | 1         | 1.7        |
|              | Non-Teaching     | 24        | 40.0       |
| <b>Total</b> |                  | <b>60</b> | <b>100</b> |

Author, 2014

The study sought to establish the number of respondents in each department who participated in the study. The finding Table 4.1 indicates that majority of respondents represented by 40.6% were from non teaching staff. This is an indication that majority of the respondents were actually involved in the implementation of performance contract which is important and relevant to the study.

**Table 4.2: Gender Composition**

|  |              | <b>Frequency</b> | <b>Percent</b> |
|--|--------------|------------------|----------------|
|  | Male         | 35               | 58.3           |
|  | Female       | 25               | 41.7           |
|  | <b>Total</b> | <b>60</b>        | <b>100.0</b>   |

The study sought to establish the number of male and female respondents who participated in the study. The finding in Table 4.2 above indicates majority of respondents represented by 58.3% were males.

**Table 4.3: Distribution of the Respondents by Age Bracket**

|              |              | <b>Frequency</b> | <b>Percent</b> |
|--------------|--------------|------------------|----------------|
|              | 20 – 30 yrs  | 5                | 8.3            |
|              | 31 – 35 yrs  | 6                | 10.0           |
|              | 36- 40 yrs   | 12               | 20.0           |
|              | 41 – 45 yrs  | 19               | 31.7           |
|              | 46 – 50 yrs  | 13               | 21.7           |
|              | 51 and above | 5                | 8.3            |
| <b>Total</b> |              | <b>60</b>        | <b>100.0</b>   |

Author, 2014

The study sought to establish the age diversity of the respondents. The findings as in Table 4.3 confirm that majority of respondents were between the age of 41 to 45 which is represented by 31.7%.

**Table 4.4: Length of Continuous Service with Kisumu Polytechnic**

|              |             | <b>Frequency</b> | <b>Percent</b> |
|--------------|-------------|------------------|----------------|
|              | 1 – 5 yrs   | 11               | 18.3           |
|              | 6 – 10 yrs  | 17               | 28.3           |
|              | 11 – 15 yrs | 13               | 21.7           |
|              | 16 – 20 yrs | 15               | 25.0           |
|              | 21 – 25 yrs | 2                | 3.3            |
|              | 26 – 30 yrs | 2                | 3.3            |
| <b>Total</b> |             | <b>60</b>        | <b>100.0</b>   |

Author, 2014

The study sought to establish the length of continuous service by the respondents in the Kisumu Polytechnic. The findings as Table 4.4 indicate that 28.3% of the

respondents have served the organization between 6 to 10 years. This indication that the respondents possess enough experience to enable them gives reliable information about the study.

**Table 4.5: Educational Qualification**

|  |              | <b>Frequency</b> | <b>Percent</b> |
|--|--------------|------------------|----------------|
|  | Phd          | 3                | 5.0            |
|  | Masters      | 12               | 20.0           |
|  | Bachelors    | 17               | 28.3           |
|  | Diploma      | 19               | 31.7           |
|  | Certificate  | 9                | 15.0           |
|  | <b>Total</b> | <b>60</b>        | <b>100.0</b>   |

Author, 2014

The researcher intends to establish the average academic qualification of the respondents. The finding as shown in the Table 4.5 indicates 31.7% of the respondents had attained a diploma qualification.

**Table 4.6: Management Level**

|  |                   | <b>Frequency</b> | <b>Percent</b> |
|--|-------------------|------------------|----------------|
|  | Top management    | 3                | 5.0            |
|  | Middle management | 8                | 13.3           |
|  | Lower management  | 8                | 13.3           |
|  | Ordinary Staff    | 41               | 68.3           |
|  | <b>Total</b>      | <b>60</b>        | <b>100.0</b>   |

Author, 2014

The study sought to establish the number of the respondents who were in the top management, middle management, low management and the ordinary staff. The finding as Table 4.6 above indicate that the highest number of respondents were staff which represent 68.3%. This indicates that the respondents had the experience in the implementation of the performance contracting that is important and relevant to the study.

### **4.3. The Influence of Performance Contracting on Performance of Kisumu Polytechnic**

This section presents quality of service, service delivery to customers, response to customers needs, ability to offer service in a predictable manner, ability to change operations in response to customers demands, customers response time, cost of service to customer, department more effective than before performance contracting, explanation given for delay in services delivery, effectiveness of performance contracting, performance contracting has enhanced performance, achieving of performance contracting targets, incentives, sanctions, effectiveness of performance contracting feedback mechanism, level commitment and satisfaction. The study used a likert scale of 5 to 1, with 5 being to a very great extend while 1 being to a very limited extend.

**Table 4.7: Means and Standard Deviations for the Perceived Influence of Performance Contracting on Performance of Kisumu Polytechnic**

|                              | N  | Min  | Max  | Mean   | Std. Dev. |
|------------------------------|----|------|------|--------|-----------|
| Quality of service           | 59 | 1.00 | 5.00 | 3.2542 | .97544    |
| Service delivery to customer | 59 | 1.00 | 5.00 | 3.3898 | .85131    |
| Response to customer needs   | 59 | 1.00 | 5.00 | 3.2034 | .96096    |
| The ability to offer         | 59 | 1.00 | 5.00 | 3.1017 | .94129    |

|  |    |      |      |        |         |
|--|----|------|------|--------|---------|
| service in predictable manner  |    |      |      |        |         |
| Effectiveness of performance contracting in meeting set targets                            | 59 | 1.00 | 5.00 | 3.2373 | 1.29107 |
| Conversant with performance contracting set target   | 58 | 1.00 | 5.00 | 3.3276 | 1.19043 |
| Performance contracting target has enhance performance                                     | 58 | 1.00 | 5.00 | 3.2759 | 1.19638 |
| Kisumu polytechnic strive to create excellence in achieving its goals                      | 59 | 1.00 | 5.00 | 3.2712 | 1.20101 |
| Achievement of contracting targets   | 59 | 1.00 | 5.00 | 3.2542 | 1.02710 |
| Incentive set aside to be awarded to employees for meeting performance contracting targets | 58 | 1.00 | 5.00 | 2.1724 | 1.15679 |
| Sanctions for not meeting the target are made known  | 59 | 1.00 | 5.00 | 2.2881 | 1.16042 |
| Training provide to all employees on all aspects of performance contract                   | 60 | 1.00 | 5.00 | 2.5000 | 1.11233 |
| Top management supports and encourages the process of performance contract                 | 59 | 1.00 | 5.00 | 3.1356 | 1.25200 |
| The performance contracting evaluation criteria and process is fair and transparent        | 59 | 1.00 | 5.00 | 3.0339 | 1.12902 |
| The effectiveness of performance contracting feedback mechanism                            | 59 | 1.00 | 5.00 | 2.9661 | 1.03334 |
| Performance contracting has increased the level of staff commitment and satisfaction       | 59 | 1.00 | 5.00 | 3.0508 | 1.10522 |
| Effects of performance contracting on the kisumu polytechnic performance culture           | 58 | 1.00 | 5.00 | 2.7759 | .93739  |

|   |    |      |      |        |         |
|---|----|------|------|--------|---------|
| The performance of kisumu polytechnic as a service provider | 59 | 1.00 | 5.00 | 3.0508 | 1.02425 |
|---|----|------|------|--------|---------|

Author, 2014

#### 4.4 Discussion

According to Table 4.7, majority of the respondents supported the idea that performance contracting influence the performance of the institution as shown in the mean rating of various variables as shown in Table 4.7. The respondents were asked to rate the extent to which they agree with the statements as were listed in the questionnaire. The statements describe the characteristics of Kisumu Polytechnic.

The results of the mean as shown in the Table 4.7 indicate that quality of services, service delivery to customers, response to customer needs, ability to offer service in a predictable manner, effectiveness of performance contracting in meeting set targets, performance contracting has enhanced performance, achievement of performance contracting targets, top management support and encouragement, performance contracting evaluation criteria has a mean ranging from 3.0508 to 3.3898. The findings indicated that to a moderate extent the above listed statements described Kisumu Polytechnic. The standard deviation in Table 4.7 shows listed statements ranges from 1.03334 to 1.29107 which indicates that they moderately deviate from the mean.

Incentives set aside to be awarded to employees for meeting performance contracting targets, sanctions for not meeting targets, effectiveness of performance contracting feedback mechanism, performance contracting has increased the level of staff commitment and satisfaction has a mean ranging from 2.1724 to 2.9661. The findings indicate that to a greater extent the above statements describe Kisumu Polytechnic.

The standard deviation for the listed statements ranged from 1.25200 to 1.15679 which indicate that there is minimum deviation from the mean. The descriptive analysis indicated that the respondents agree that indeed to a moderate extent the influence of performance contracting on the performance of Kisumu Polytechnic

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

### **5.1 Introduction**

This chapter presents the summary of the findings, conclusion and recommendation. The study sought to determine the influence of performance contracting on the performance of Kisumu Polytechnic. From the analysis and data collected, the following findings, conclusion and recommendations were made.

### **5.2 Summary of the Findings**

The respondents were from all the departments within the organization. Majority of them being of the age bracket of ranged from 41 to 50 years. The study found that the majority of respondents have served the organization for a duration of 6 to 10 years. Most of the respondents were diploma holders. Further, it was found that most of the respondents had experience in the implementation of performance contracting which enhanced the achievements on performance targets. A high number of respondents strongly believed that quality of service has improved to a great extent, though the delivery of service only improved to a limited extent.

The respondents believed that there are other areas where performance contracting has helped to improve though to a moderate extent. They include the following: response to customer needs, ability to offer service in predictable manner, ability to change operations in response to customer demands, customer's response time, and cost of services to customers, explanation given for services delay. It also noted that the respondents believed that performance contracting has helped the institution to achieving the following to moderate extent: effectiveness of performance contracting in meeting set targets, striving to achieve excellence, training employees in aspects of



performance contracting, support and encouragement from top management and effectiveness of feedback mechanism.

The following areas were rated highly by the respondents: achievement of performance contract targets, incentives, performance contracting evaluation criteria and processes. This is an indication that performance contracting is considered an essential tool for enhancing accountability for the results in the institution. Based on the study findings, it was realized that the use and application of performance contracting in the public institutions had positive influence on performance, particularly in terms of service delivery.

### **5.3 Conclusions**

From the findings of the study, the following conclusions were drawn: the study concluded that incentives being set aside to award employees for meeting performance contracting targets should be adequate to motivate employees to perform, sanctions for not meeting the performance contracting targets should be made known in order to avoid fear of performance contracting as a practices of enhancing performance. The study concluded that in order to improve performance as intended commitment by top management is mandatory and top management should show commitment to the strategic direction of performance

From the discussion it is clear that there has been some improvements in the performance as a result of performance contracting and can therefore be concluded that performance contracting has contributed to the performance of the institution. Public institutions can therefore improved there service delivery process and enhanced their performance by adopting performance contracting in their management programs. The gains to Kisumu Polytechnic performance can therefore

be attributed to the adoption of performance contracting in their management programs.

In conclusion from the findings the researcher observes that performance contracting has yielded significant benefits to Kisumu Polytechnic terms of performance. However, regardless of this success, there is a lot more still need to be done for the full realizations of the organizational performance objectives in the following areas staff training, response to customer needs, and cost of services to customers, customer's response time and support and encouragement from top management.

#### **5.4 Recommendations**

Given that performance contracting is important in any organization's performance, the researcher recommends that top management support, commitment and effectiveness of feedback mechanism should be enhanced. Based on the conclusion, the researcher recommends the following with regard to influence of performance contracting on the performance of Kisumu Polytechnic. Incentives to award employees should be adequate to motivate employees to perform, The researcher further recommends the participation and involvement of all staff in the process of setting performance targets.

#### **5.4 Limitations of the Studies**

The study focuses on the selected organization in Kenya, and these present limitations that the finding cannot be generalized to other organizations, government departments and private sectors in Kenya.

## **5.5 Recommendation for further Research**

This study has reviewed the perceived influence of performance contracting on the performance of Kisumu Polytechnic in Kenya. To this end therefore a further study should be carried out to establish the influence of performance contracting on the performance of other public learning institutions in Kenya.

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**SECTION B: THE INFLUENCE OF PERFORMANCE CONTRACTING ON  
THE PERFORMANCE OF KISUMU POLYTECHNIC**

Please rate the extent to which the statements given in the matrix presented below describe Kisumu Polytechnic. Tick in the box of your choose against each statement.

The numbers in the matrix column are interpreted as follows

5 – To a very great extent

4 – To a great extent

3 – To a moderate extent

2 – To a limited extent

1- To a very limited extent

|    |   | <b>5</b> | <b>4</b> | <b>3</b> | <b>2</b> | <b>1</b> |
|----|---|----------|----------|----------|----------|----------|
| 1  | Quality of service is high  |          |          |          |          |          |
| 2  | Service delivery to customers is excellent  |          |          |          |          |          |
| 3  | Response to customer needs is timely  |          |          |          |          |          |
| 4  | The ability to offer service in predictable manner                                      |          |          |          |          |          |
| 5  | Ability to change operations in response to customer demands                            |          |          |          |          |          |
| 6  | Customers response time is high   |          |          |          |          |          |
| 7  | Cost of service to customers fair   |          |          |          |          |          |
| 8  | The institutions is more effective than before performance contracting was put in place |          |          |          |          |          |
| 9  | Reasonable explanation is given for any delay in service delivery                       |          |          |          |          |          |
| 10 | Performance contracting is effective in meeting the targets                             |          |          |          |          |          |

|    |  |  |  |  |  |  |
|----|--|--|--|--|--|--|
| 11 | Performance contracting targets have enhanced performance  |  |  |  |  |  |
| 12 | Achievement of performance contracting targets has contributed to improvement of overall performance                                     |  |  |  |  |  |
| 13 | Incentive set aside to be awarded to employees for meeting performance contracting targets has contributed to improvement of performance |  |  |  |  |  |
| 14 | Sanctions for not meeting the targets are made known has enhanced performance  |  |  |  |  |  |
| 15 | The effectiveness of performance contracting feedback mechanism  |  |  |  |  |  |
| 16 | Performance contracting has increased the level of staff commitment and satisfaction   |  |  |  |  |  |
| 17 | Performance contracting has had positive effect on the Kisumu Polytechnic performance culture  |  |  |  |  |  |

**THANK YOU**