

EMPLOYEES STATE OF PSYCHOLOGICAL CONTRACT  
FOLLOWING IMPLEMENTATION OF PERFORMANCE  
CONTRACTS: CASE OF MUNICIPAL COUNCIL OF THIKA  
MANAGERS

BY

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Requirement for the Award of the Degree of Master of Business Administration,  
Department of Business Administration, School of Business, University of Nairobi.

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**M I H P 1**

## TABLE OF CONTENT

Declaration.....	iii
Dedication.....	iv
Acknowledgement.....	v
List of Figures.....	vi
List of Tables.....	vii
Abbreviations.....	viii
Abstract.....	ix
CHAPTER ONE: INTRODUCTION.....	1
1.1 Background.....	1
1.1.1 Psychological Contract.....	1
1.1.2 Performance Contract.....	2
1.1.3 Diika Municipal Council.....	2
1.2 Statement of the Problem.....	3
1.3 Research Question.....	5
1.4 Objective of the Research.....	5
1.5 Importance of the Research.....	5
CHAPTER TWO: LITERATURE REVIEW..	
2.1 Introduction.....	6
2.2 Performance Management Systems and Performance Contract.....	7
2.2.1 Performance Contract.....	8
2.2.2 Sub-Systems of Performance Contracts.....	8
2.2.2 Types of Performance Contracts.....	10
2.2.3 Efficiency.....	10
2.2.4 Principul Agent Theory.....	11
2.3 Psychological Contract Theory.....	16
2.3.1 Psychological Contract.....	18
2.3.2 Psychological Contract Core Dimensions.....	19
2.3.3 Psychological Contract Breach.....	20
2.4 Psychological Contract and Performance Management.....	21
2.5 Summary of the Literature Review.....	22
2.6 Conceptual Framework.....	23
CHAPTER THREE: RESEARCH METHODOLOGY.....	26
3.1 Rescurch Design.....	26
3.2 Data Collection.....	27
3.3 Data Analysis.....	28
CHAPTER FOUR - DATA ANALYSIS, FINDINGS AND DISCUSSION.....	29
4.1 Introduction.....	29
4.2 Demography characteristics of the Respondents.....	29
4.3 Psychological Contract Inventory' Data Analysis and Findings.....	34
(a) Employer Obligations.....	34
(b) Seven Employer Transitional Scale.....	42
(c) Seven Employee Obligations.....	45
(d) Global Fulfillment.....	50
4.4 Discussion.....	53

CHAPTER FIVE - SUMMARY, CONCLUSION AND RECOMMENDATIONS	56
5.1 Introduction	56
5.2 Summary	56
5.3 Conclusion	58
5.4 Recommendations to the organization management	59
5.5 Limitation of the study	61
5.6 Recommendation for further research	61
REFERENCES	62
APPENDIXES	66
Appendix 1: Questionnaire Guide	66
Appendix 2: Organization structure Municipal Council of Iltika	74
Appendix 3: Letter of Introduction to Respondents	75
Appendix 4: Letter of Research Conduct Approval	76
Appendix 5: Data Classification Format	77

Declaration

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

Signed



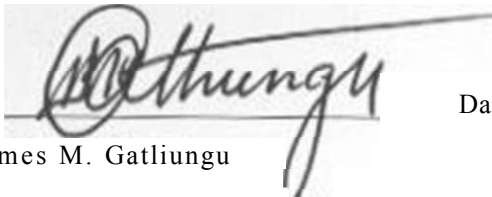
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This management research project has been submitted for examination with my approval as University Supervisor.

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## Dedication

io my beloved parents Mrs. Ann Njambi and the laic Mr. James Mukunc alias Njenga who taught me from an early age that God is the divine giver of knowledge, skills in learning and wisdom.

## Acknowledgement

First I thank the Almighty God for giving me the strength, knowledge and skill to undertake this study. I would also like to thank Joseph Kimani and Gregory Katiku for facilitating me in the initial stages of this course. My appreciation goes to Messes Johnson Kariuki and I elix Mbiuki, for facilitating me to conduct this research project. I acknowledge my entire family for their patience during the studies and allowing me use some of the family resources. Thanks also to Steruh Mwendu who did the typing of parts of this document

Special thanks to my supervisor Mr. James Galhundu for his thoroughness and undivided commitment to ensure that I complete this project professionally and in time. In addition, I wish to acknowledge my friends Kabarc Ndungu who shared insights on how to go about the research. Finally I am grateful to the entire management of Municipal council of Thika for giving me an opportunity to carry out research on their organization.

## List of Figures

- Figure 2.1: An illustration of the three waves of public service in SSA
- Figure 2.2: Result based performance management cycle
- Figure 2.3: Model of Psychological Contract Breach
- Figure 2.4: Change Model of the Psychological Contract
- Figure 2.5: Schematic Diagram for the Theoretical Framework
- Figure 4.1: Distribution statistics of the respondents by gender
- Figure 4.2: Distribution statistics of respondents by age in years
- Figure 4.3: Distribution of respondents by length of service in years
- Figure 4.4: Distribution of respondents' academic qualification
- Figure 4.5: Distribution of respondents' position in the organization
- Figure 4.6: Distribution of respondents by level of involvement in the PC
- Figure 4.7: Employer Relational Contract Statistics Dynamic Performance
- Figure 4.8: Employer Balance Dynamic Contract
- Figure 4.9: Employer Transactional Contract Statistics
- Figure 4.10: Standardized Scores Graph – Employer Obligation Fulfillment Descriptive  
Statistics for employer obligations
- Figure 4.11: Employer Transition
- Figure 4.12: Employee relational statistics Standardized score graph
- Figure 4.13: Distribution Statistics for Employee Balance Dynamic
- Figure 4.14: Employee Transactional Standardized Scores Chart
- Figure 4.15: Distribution Statistics for employee Obligations

## List of Tables

- Table 2.1: Kind of commitment for employees and employers
- Table 4.1: Gender statistics
- Table 4.2: Age distribution statistics
- Table 4.3: Length of service distribution statistics
- Table 4.4: Academic Levels statistics
- Table 4.5: Distribution of respondents' position in the organization
- Table 4.6: Distribution of respondents by level of involvement in the PC'
- Table 4.7: Distribution statistics of employer relations
- Table 4.8: Distribution statistics for External Employability, Internal Advancement, Dynamic Performance
- Table 4.9: Employer Transactional Contract
- Table 4.10: Distribution Statistics for seven employer obligation
- Table 4.11: Seven Employer Obligations Descriptive Statistics Data
- Table 4.12: Employer Transition (mistrust) Distribution Statistics
- Table 4.13: Employer transition (Uncertainly) mistrust) Distribution Statistics
- Table 4.14: Employer Transition (Erosion) Distribution Statistics
- Table 4.15: Employer Transition statistics
- Table 4.16: The descriptive statistics for employer transitional
- Table 4.17: Employee relational statistics
- Table 4.18: Employee Balance Dynamic Statistics
- Table 4.19: Employee Transactional Statistics
- Table 4.20: Employee Obligations Statistics
- Table 4.21: Descriptive statistics for the seven employee obligation
- Table 4.22: Global Measurement for commitments, promises, satisfaction and responsibility



## Abbreviations

AAPAM	African Association for Public Administration and Management
DPM	Directorate of Personnel Management
ERS	Economic Recovery Strategy
MDCI'S	Millennium Development Goals
OECD	Organization for Economic Cooperation and Development
PC	Performance Contract
PCs	Performance Contracts
PCI	Psychological Contract Inventory
PCSC	Performance Contracts Steering Committee
PMS	Performance Management Systems
POS	Perceived Organizational Support
SSA	Sub-Saharan Africa

## Abstract

In the present times many organizations have to operate in an increasingly turbulent economic environment, due to increasing global competition. However in case of public sector organizations they operate without market competition. That is why the implementation performance measurement is actually a means of a substitute for market pressures (Radnor 2004) in the public service organizations. The sum total of these strategic actions has undermined the traditional employment relations, which is increasingly conceptualized in terms of psychological contract (Shore and Tetrick. 1994). Performance contracts are performance management processes, which play a key role in creating a framework within which the psychological contracts between employer and employees is determined (Philip Stiles et al., 2007). These two contracts are relational contracts that involve broad, long-term and short term obligations, and as they reflect socio-emotional elements such as trust, commitment, and loyalty (Greiling, 2005; Winter and Jackson. 2006).

A Performance Contract is a freely negotiated performance agreement between government, acting as the owner of a government agency or principal, and the agency itself. The psychological contract is defined as the employee's (agent) perception of reciprocal obligations, that exist with their employer (principal). That is the employee has beliefs regarding the organization's obligations to them as well as their own obligations to the organization (Rousseau. 1989). This is vital because a relationship that is balanced and mutually supporting between the agent and the principal yields to a free exchange of skills, effort and commitment by the employees (Winter and Jackson. 2006) which in essence reduces principal agent problem and moral hazard inherent in performance contracts. The three dimensions of psychological contract identified in the literature review are relational, transactional and transitional. In so far as success of performance contracts in the public service is concerned a positive state of psychological contract translates to the agent giving skills, effort and commitment in return for desired monetary and socio-emotional rewards provided by the principal.

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introduction of performance contract in the local authorities in Kenya, meant that the relationship terms change and thus the psychological contract is open to negotiation. This is the basis of the research which investigated the state of psychological contract as a result of introduction of performance contracts in a medium size local authority in Kenya. The research considered the state of psychological contract for the managers who are supposed to ensure that those below them are accountable for the performance attributes (PCSC, 2005).

The findings of research were that global perceptions of managers, to a great extent have met their obligations and promises to the organization, whereas the employer has moderately met his obligations and promises. The level of satisfaction of employees is moderate, and they perceive that their performance depends to a large extent with management, organization and the boss and only slightly to the co-worker, there are slight work interactions among managers. The relational obligation by the employer in dimensions of loyalty stability and balanced dynamic are moderately met. The employer transitional obligation dimension on information transfer and flow is violated. There is further transition erosion where perception is that, the employer demands more while moderately giving less in return or more work less pay. In situation where there is moderate violation of the contract, employees who perceived a contract breach are more likely to demonstrate deviant behaviors against the organization and its members (Restubog, et al., 2007). Comparative study is required to find if this state of psychological contract does relate to the status of performance control in the organization.

## CHAPTER ONE: INTRODUCTION

### 1.1 Background

#### 1.1.1 Psychological Contract

The conceptual foundations for the concept of a psychological contract were laid by Argyris (1960). Later on Levinson et al. (1962) expanded the concept further by highlighting the unwritten, implicit nature of the contract whereby the individual and the organization specify what each expects to give and receive from each other in the relationship.

Rousseau (1990, 1995) defined psychological contract as the unwritten promises, mutual expectations and obligations that exist between employees and their organizations. According to Winter and Jackson (2006) Psychological contract is essentially an exchange relationship between the organization and individual employees. But the researchers are yet to determine the level of engagement.

There are those who support the multi-level approach arguing that in framing psychological contracts, there is need to consider the changing expectations and obligations of both the organization and the employee (Herriot et al., 1997). That is, the contract should be viewed from the perspectives of both the employee and employer. When a balanced and mutually supporting relationship exists, employees freely exchange their skills, effort and commitment in return for desired monetary and socio-emotional rewards provided by the organization or its agents (Meyer and Allen, 1997).

Scholars have advanced the debate that since the psychological contract concerns mutual expectations based on perceived employee-employer promises and/or obligations, the contract is open to re-evaluation as changes in the work environment occurs (Brooks and Harfield, 2000; Merriott et al., 1997). The re-evaluation occurs in the context of organizations structure engineering. For example downsizing and delayer process, whose objective is to ensure lower costs and greater administrative efficiency.

The underlying assumption that led to introduction of performance contracting by the government of Kenya is that performance management can help to increase the efficiency of public service delivery. The fundamental principle of performance contracting is the

devolved management style where emphasis is management by outcome rather than management by processes (PCSC. 2005). This calls for a framework for changing behaviors in the context of devolved management structures.

### 1.1.2 Performance Contract

Performance contract fall under what is generally referred to as performance management systems. Precisely performance contracts belong to a branch of management science referred to as management control systems (or interactive control systems). Performance management is usually taken to comprise three key elements namely: the setting of objectives, derived from corporate and business unit (or divisional) strategies, the evaluation of performance, and the linkage between evaluated performance and development and rewards, in order to reinforce desired behavior (Storey and Sisson. 1993).

The contract- making features of performance management include the understanding of job role, the fair, timely and accurate evaluation of performance, the fair distribution of pay and development opportunities and the provision of feedback to employees (Rousseau and Greller. 1994). Performance management processes, in particular, play a key role in creating a framework within which the psychological contract between employer and employee is determined (Philip Stiles et al 2007).

### 1.1J Thika Municipal Council

Municipal Council of Thika falls under the local authorities system established under legislation chapter 265 of the laws of Kenya. In Kenya we have 175 local authorities of various categories which include cities, municipal, urban and county councils. The management of the local authority is done through a system of government where the elected leaders also known as councilors act as a board of directors. Meanwhile the chief officers also known as heads of department play the role of management. The principal who also play the supervisory role is the ministry of local government headed by the minister with the permanent secretary acting its chief executive.

The study is based in Municipal council of Thika which is a medium size local authority. This local authority is established under chapter 265 of the laws of Kenya. Initially the township Started 1900 as small stop over for British settlers at the famous Blue Posts hotel which lie between the two river falls namely Chania and Thika. In the later years the town was fully developed in 1910 as a settlement serving the British settlers who established big farms around the area. The town was given its status by a government gazette in 1924. Thereafter it was elevated to a second class municipality in 1963 with the first mayor being enthroned in 1968. The council currently has a work force of 800 employees. That is the eight chief officers, middle managers, operatives and temporaries.

Public sector service organizations like the local authority of Thika operate without market competition and so introduction performance measurement in 2003 was used as a means of a substitute for market pressures (Radnor, 2004). The organization is now faced with new competitive conditions, and has to cope with dynamic environments. As such the local authority itself and psychological contracts are now in transition (Robinson and Rousseau, 1994). These developments have brought performance management to centre stage. By specifying the new performance requirements of employees as the result of strategic change, and the rewards they will receive upon their fulfillment, the local authority has to define new expectations and so alter the employment relationship (Philip Stiles et al., 2007).

## 1.2 Statement of the Problem

The critical issue for employers is to understand how to maintain the motivation and commitment of employees when making changes to key areas of the employment relationship (Winter and Jackson, 2006). In this case the introduction of performance contract has brought in a new dimension and sanctions in the employment relations whose causal effect is reevaluation of the previous existing psychological contract.

This is vital because a relationship that is balanced and mutually supporting between the agent and the principal yields (Meyer and Allen, 1997) to a free exchange of skills, effort and commitment by the employees which in essence reduces principal agent problem. The agent gives skills, effort and commitment in return for desired monetary and socio-emotional rewards provided by the principal. This helps to overcome the primary

challenge of obtaining full gains by exploiting comparative advantages to achieve joint principal agent value (Greiling, 2005). The gap between agent and principal interest is narrowed or widened by state of the relationship framed in terms of the psychological contract. Indeed existence of a positive state of psychological contact would lead to minimal principal agent problem and the moral hazard.

Since state of psychological contract relate to mutual expectations based on perceived employee-employer promises and/or obligations (Winter and Jackson, 2006) the introduction of performance contract in the local authorities in Kenya, means that the relationship terms change and thus the psychological contract is open to re-evaluation. This is the basis of my research which intends to investigate the state of psychological contract as result of introduction of performance contracts in a medium size local authority in Kenya, in this case municipal council of Thika.

In order to capture the reality the research will consider the state of psychological contract at the management level which includes town clerk (chief executive) and heads of departments and the respective middle managers. It will be necessary to find out from the perspective of psychological contract, the level of acceptability the PCs have received in Municipal Council of Thika.

Performance contract is a relational contract that involves both broad, long-term and short term obligations, and as such should reflect socio-emotional elements such as trust, commitment, and loyalty. This is because its potential success lies in having a positive state of psychological contract. From the perspective of principal agent theory (Greiling, 2005) a positive state of psychological contract will result in a reciprocity function which will possibly reduce or eliminate principal agent incongruence and moral hazard.

Although compensation schemes have been viewed by the principal agent theory as a solution to reduce the danger of moral hazard (Greiling, 2005) practically only a few countries have instituted a strong link between performance appraisal and performance (O'Donoghue, 2005). This means the issue should be taken a notch higher than considering compensation alone which only achieves transactional contract dimension (short term) of psychological contract, leaving relational and training/career development contracts dimensions



Thai is compensation consideration only addresses the short term transactional contract dimension of psychological contract and leaves the relational and training'career development dimensions (Coyle-Shapiro and Kessler. 2000) (Herriot et al.. 1997; Robinson et al.. 1994). Since the field of performance contracting is relatively new, there has been no study done to link it to psychological contract theory. Yet maintaining a positive state of psychological contract is the most effective method of minimizing the principal agent issues (Greiling. 2005) associated with performance contracts in public sector.

## IJ Research Question

What is the management employees' state of psychological contract following implementation of performance contracts at Municipal Council of Thika?

### 1.4 Objective of the Research

to find out what is the state of psychological contract of Municipal Council of Thika managers, following implementation of performance contracts.

### I.S importance of the Research

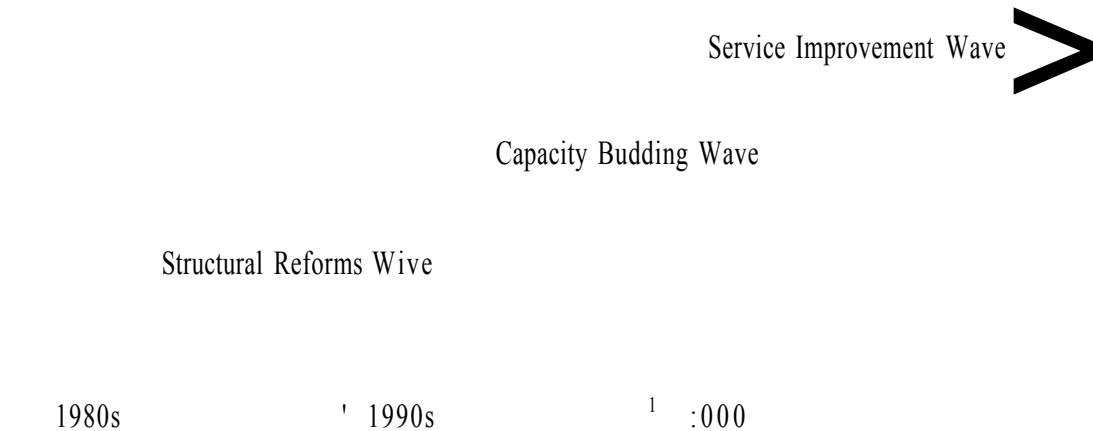
- i) To give the ministry of local government and the local authority of Thika the feedback on the employees new state of psychological contract following introduction of performance contract.
- ii) To sensitize the government on the need to have a rationalized psychological contract management, in order to reduce the principal agent conflict that may impede the attainment of the expected performance outcomes of the performance contracts efficiently.
- iii) Give an academic knowledge contribution on the performance contract implementation at the local authorities in country like Kenya and development of the content and context of psychological contract in employment relations.

## CHAPTER TWO: LITERATURE REVIEW

### 2.1 Introduction

Public service reforms in Africa have taken place in three phases constituting of the first, second and third waves. The distinctive feature of the first wave was public service restructuring or structural reforms. The second wave was predominant capacity building. Whereas the third wave, underscored improved service delivery in 2000 which was guided by economic recovery strategy (DPM 2004).

figure 2.1: An Illustration of the three waves of public service reforms in SSA



Source: DPM 2004

The initiative targeted public service improvement and management. This required fundamental changes institutional organization and relationships at individual and collective behavior of agents sector (Kobia and Nura. 2006). This led to the need to introduce performance contracts in order to enhance efficiency and effectiveness together with probity and integrity.

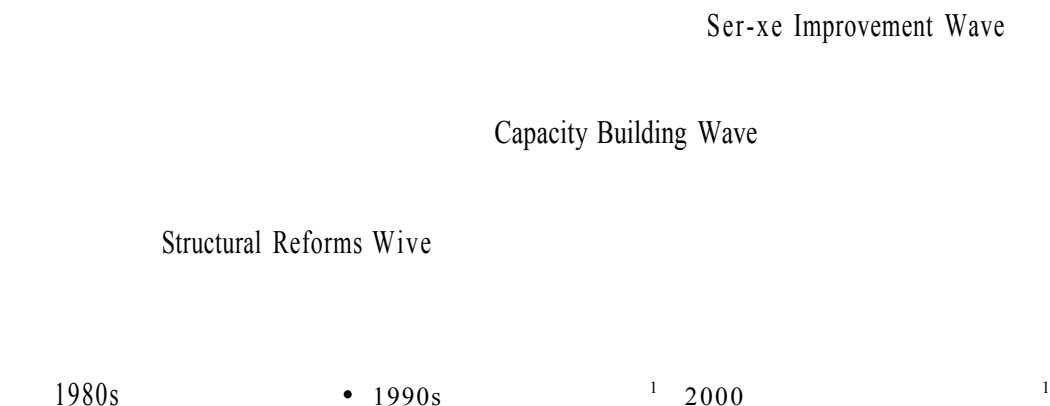
In Kenya the performance contracts were initially introduced in State Corporation namely National Cereals and Produce Board and Kenya Railways Corporation in 1989. The **reproduction** of, hence, the book since 2003 as articulated in economic recovery strategy for wealth and employment creation. Sixteen state corporations which had strategic plans were the first to be engaged in performance contracts ((Kobia and Num. 2006).

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As a result of the success in implementing performance contracts in state corporations, the government then extended the process to Public Service starting with permanent secretaries and accounting officer\*. Later in April 2005, the 175 Local Authorities were also placed on Performance Contracts, but initially on pilot basis with five major municipalities, The remainder of the councils signed Performance Contracts on 30th June 2006 (Kobia and Nura. 2006).

## 2J Performance Management Systems and Performance Contract

In order to get understand the meaning of performance contract it is prudent to define it having at least a fair comprehension of the related term like performance management systems. Performance can be considered as an outcome of both organizational and human activities. Originally, performance measures were used as surrogates for these outcomes (Andrt. 2003).

Performance management systems are systems based on critical success factors, key performance indicators and the balanced scorecard (Andre. 2003). Generally performance management systems can be classified into four main groups depending upon the variables they seek to measure, with a view to influencing or controlling their outcome (Radnor. 2004).

These four classifications are belief systems, boundary systems, diagnostic control systems and interactive control systems. Belief systems includes audit of mission and vision systems via staff surveys. Boundary systems involve systematic internal financial controls. Diagnostic control systems include profit plans and budgets. Whereas the interactive control systems is profit planning and project management.

Simons (2000. cited by Radnor. 2004) has alluded to the fact that a successful strategic control is unlikely to result from the use of just one type of PMS alone. There is always uv: of more than one system or introduction/ implementation of the others along the performance management strategic continuum. Performance contracting falls under the interactive control system which is a branch of management control science (Radnor. 2004).

### 2.2.1 Performance Contract

Performance Contract parties includes principal and an agent, the principal can be a superior entity in the Government hierarchy, who monitors and evaluates performance and is responsible for public policy. The agent is a subordinate entity in the same hierarchy, whose performance is evaluated by principal and is responsible for implementation of public policies.

\ Performance Contract is a freely negotiated performance agreement between Government, acting as the owner of a government agency or principal, and the agency itself. Thus it is an agreement between two parties that clearly specifies their mutual performance obligations, intentions and responsibilities. Performance Contracts include a range of management instruments used within the public sector to define responsibilities and expectations between parties to achieve mutually agreed results (PCSC, 2005). Performance Contracts belong to a branch of management science referred to as Management Control Systems specifically interactive control systems (Radnor. 2004).

The Performance Contract usually addresses economic, social or other tasks that an agency has to discharge for economic performance or for other desired results. And it also organizes and defines tasks so that management can perform them systematically, purposefully, and with reasonable probability of accomplishment. The PC will similarly assist in developing points of view, concepts and approaches for determining what should be done and how to go about it. The PC's contracts comprises two major components namely, determination of mutually agreed performance targets and review plus evaluation of periodic and terminal performance.

### 2.1.2 Sub-Systems of Performance Contracts

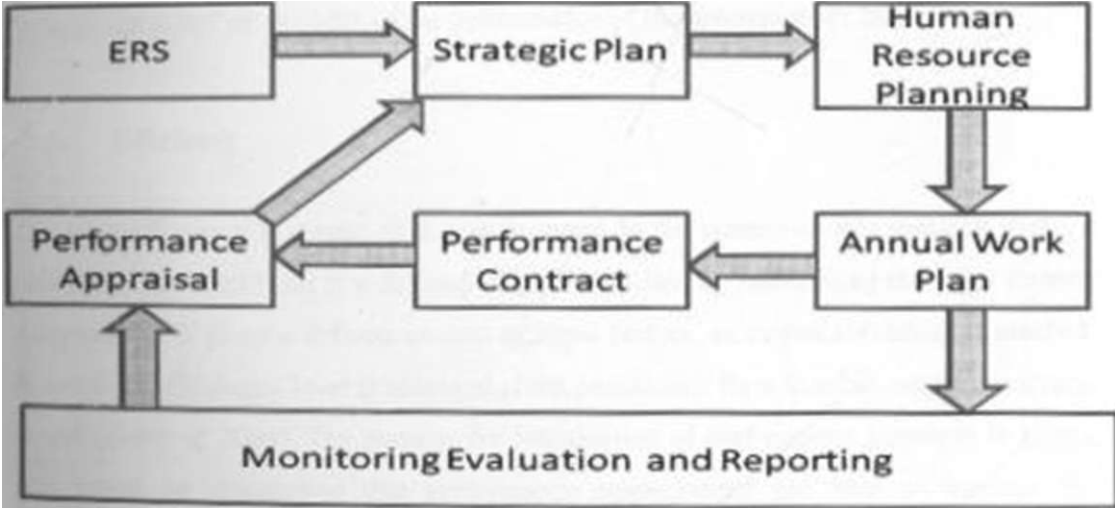
A standard performance contract consists of three sub-systems namely; Performance Information System, Performance Evaluation System, and Performance Incentive system. Performance Information System relates to the need for a reasonable balance of information between Government and the agency in the process of negotiating performance targets. The purpose of a Performance Information System is to ensure this balance. On the other hand Performance Evaluation System consists of a

number of steps relating mainly to the decision of developing criteria for evaluating performance (PCSC. 2005).

The focus is in four main fronts. That is one. static efficiency which has to do with Government agency making the best use of its resources. Then two. dynamic efficiency which addressing decisions which entail costs in the present but which benefits are realized in the future. Three, whether projects are being implemented efficiently and four achievement of non-commercial objectives which relates to development of systems to measure non-commercial activities and combining primary supplementary indicators to come up with composite scores. Finally the third sub-system is the Performance sanctions.incentive system, This relates to a system that links rewards/sanctions with measurable performance (PCSC. 2005) under results based performance management

Figure 2.2:

**Result Based Performance Management Cycle**  
 The cycle of performance management consisting of the following stages:



Source: Kobia and Nura (2006)

The ministries and public enterprises have to develop a Strategic Plan and strive to achieve their mission and objectives. It is the strategic plans which provide a mechanism that supports the achievement of Economic Recovery Strategy (ERS) and achievement of Millennium Development Goals (MDG's). Strategic planning in all public sector functions actually acts to strengthen and to loop linkages with policy, planning and monitoring. The human resource function also has to be aligned with the strategic goals of

the organizations. Then the agents derive individual work plans from the strategic plan. Kobia and Nura (2006) states that. \* it is this work plan that forms a basis for the performance contract, which is then implemented, evaluated and the information used to make informed decisions on performance improvement".

### 2.2.2 Types of Performance Contracts

There are two types of Performance Contracts namely the French System and the Signalling System. The type used in Kenya is signaling system. The fundamental difference between the French system and the signaling system is that it is possible to make an overall judgment on performance of the enterprise in the latter system. Whereas in the case of French system, it is not possible to make an overall judgment on performance of an enterprise, but only possible to point out whether a particular target was met or not. The signaling system overcomes this problem by adopting the system of "five point scale" and "criteria weight" which ultimately result in calculation of "composite score" or an index of the performance of the enterprise (PCSC, 2005).

### 2.2.3 Efficiency

The term efficiency is a ratio of output to input. In the context of this research study, a public service is efficient if a defined output is reached by minimizing the input factors. Alternatively if given a defined amount of input factors, an output maximum is reached. A satisfying efficiency level is achieved if the benchmark for a feasible output/input ratio is met (Greiling, 2005). The purpose for introduction of performance contracts in Kenya was based on assumption that performance management can help to increase the efficiency of public service delivery (Kobia and Nura, 2006) (PCSC, 2005). However Greiling (2005) has alluded to the fact that measuring efficiency in the public sector is a more difficult task because one cannot rely on the market price as an efficiency indicator, there are aspects concerning the use of performance management as an instrument for increasing effectiveness or enhancing public accountability that are not addressed (Greiling, 2005). indeed empirical evidence in Kenya does not exist since the empirical basis for studies dealing with cost savings resulting from the introduction of performance management has not been performed.

The concept of efficiency with reference to public sector is discussed from theories like Max Weber's classical theory of bureaucracy, Niskanen's theory of bureaucracy, Leibenstein's theory of the X-inefficiency, the institutional theory and the principal agent theory' (Greiling. 2005). The performance contracts defines an obligation relationship between two partners namely the principal and the agent. Thus for the purpose of this research efficiency will be considered from the perspective of principal agent theory . The perspective of the principal agent theory follows a hierarchical management culture (Johnsen. 2005. cited by Greiling. 2005).

In situations where information asymmetries exist and the interests between the principal and the agent diverge, the central research issue in performance management is the effective design of the contracts between the principal and the agent. Indeed principal agent theory establish profound situation where the question arises whether performance contracts can be an instrument for increasing the efficiency in public services. This paves a way with multiple directions for further research, dealing with possible factors which might help to increase the possibility that performance contract may act as an efficiency driver.

#### 2.2.4 Principal Agent Theory

The principal agent theory addresses idea of the legitimate self-interest-driven or illegitimate opportunism-driven public agent (Greiling. 2005). The theory describes strategic interactions between at least two contract partners, called principal and agent. The assumption embedded in this theory is that the principal and the agent are motivated by rational self-interest and that mainly the agent uses gaps in contracts to his or her advantage. In case of public sector the agent will include a contracted public service provider, a public agency, a public employee, or a regulated enterprise.

The fundamental issue is how to get the agent to act in the best interest of the principal when the agent has an information advantage. The agency problem arises from a conflict of interests as well as the agent's privileged access to information. The implication according to the basic model is that the agent tends to use the superior knowledge to divert benefits in his or her direction. Jacobides and Croson (2001) states that the primary



challenge is to get full gains by exploiting comparative advantages in order to achieve joint agency value. The principal agent theory distinguishes some types of hidden characteristics that occur before a contract is signed which translate into information asymmetries. The information asymmetries when viewed from the perspective of the principal- leads to quality insecurity (Greiling. 2005).

There are hidden intentions existing with the agent like for example the agent's private purposes and willingness to act in an unfair manner after the contract has been signed. This may lead to underperforming of the agent or that potential efficiency gains are pocketed by the agent. The hidden knowledge also exists if the agent has a superior knowledge enabling him to assess the observable output. The agent may be an expert in the contracted public services or have superior process knowledge as to how to reach the contracted results with less effort than the principal assumes. Then there is the hidden action which refers to the fact that it is totally impossible or only possible at prohibitively-high costs for the principal to observe the behavior of the agent (Greiling. 2005).

The consequence of these information asymmetries according to Eisenhardt (1989) is that there will be problems such as adverse selection results in a misinterpretation by the principal of the agent's abilities. The principal's choice of wrong agent, as result of being not able to completely verify the agent's abilities and skills at the time of selection.

Then there is the problem of moral hazard which refers to the lack of effort on the agent's side to work for the fulfillment of the principal's aims. The hidden knowledge and hidden action both cause moral hazard. The danger of shrinking arises. The cream-skimming is a well known problem in contracted out public services. A hold-up occurs if the agent uses his information advantage in an unfair way. The problem is due to sunk costs on the principal's side.

Thus the contracting of an agent can be interpreted as a specific investment by the principal with the risk that the agent later uses this exclusive relationship for blackmailing (Greiling. 2005). The PCSC (2005) has alluded to these issues by stating that the criteria evaluating public enterprise performance must be fair to the country. Public enterprise management must not be rewarded for action which, though indicating improved performance according to the criterion chosen, does so at the cost of the nation's overall welfare.

The principal agent theory as well as information economics have identified several approaches to address the problem of information asymmetries on the principal's behalf. In order to deal with this problem detailed performance-oriented monitoring systems are established. To enforce comprehensive monitoring systems is in line with what Greiling (2005) calls the "hierarchical" management culture or the "informativeness principle", which is embedded in the traditional reasoning of the principal agent theory.

The informativeness principle includes the conviction that any improvement of the principal's information situation will have positive results (Greiling, 2005). With respect to performance measurement informativeness principle often leads to a deployment of voluntary or mandatory ex ante and ex post indicator-based reporting about the quality and quantity of the public services which the agent is planning to offer or has offered. Whether or not there is a substantial decrease of information asymmetries depends on the quality of the information provided by the agent.

The well-known evaluation problems of most public services, which lead to noisy measures, may leave room for window-dressing in a field where credence goods play an important role (Greiling, 2005). Jacobides and Croson (2001) have expressed concern that the smart self-interested agents will also develop a notoriously high ability to find their way around the indicators. The problems of an appropriate monitoring system and the choice of the right indicators are furthermore multiplied by the problems of uncertainty and ambiguity.

Greiling (2005) has further argued that compensation schemes have been viewed by the principal agent theory as a solution to reduce the danger of moral hazard. Rhetorically compensation schemes play a certain role in public sector reforms in many OECD countries. But on a practical level only a few countries can be proud of having instituted a strong link between performance appraisal and performance. These are for example, Korea, Czech Republic, the UK, Australia and New Zealand (OECD, 2005).

<sup>11</sup> noteworthy that the types of services examined by most principal agent models it is obvious that they refer to activities where the output is easily observable and measurable in an objective way. Empirical study by Wang and Berman (2001, cited by Greiling, 2005) has shown that, there are more output and outcome measures in areas, where Wang and Berman found that, output and outcome measures were

least implemented in education and housing. There are many public services where the output is not easy to measure. More often than not it is quite difficult to define what is the politically desirable outcome or even the output of the public services. Indeed the definition of the desirable output or outcome is often a highly political endeavour (Greiling, 2005).

Linking incentives to outputs which are not easily measurable can invite dysfunctional behavioural responses. Greiling (2005) has intimated that in multitasking activities, it is not helpful to reward an easily measurable subset of activities. In case of complex jobs, like many public services tends to be, are most likely not suitable for explicit contracts. In the cases where only a subjective performance evaluation is possible, the principal agent theory predicts that the agents are likely to waste valuable resources by currying favours of the principal (Prendergast, 1999. cited by Greiling, 2005).

Taking into account that outcome evaluation and qualitative output evaluation are often subjective in the case of public services, non-efficient resource allocation is probable, according to the reasoning of the principal agent theory. There are many examples of 'gaming' the system of public service delivery. These include behavioral gaming like (in case of public service transport system operated by local authority) bus drivers not stopping at all bus stops in order to be on time which is rewarded by a financial bonus, or doctor discharging patients from the hospital bed before complete recovery in order to maximize the bed capacity on which his/her incentive is based (the patient may be readmitted with more serious conditions leading to higher costs to the principal). There is also definitional gaming through including some slack in outcome measures and data gaming by manipulating the measurement process (Radnor, 2005).

Jacobides and Croson (2001) have promoted the idea that it might be helpful to have less performance monitoring in order to increase the agency value. Jacobides and Croson (2001) question the informativeness principle pursued by the traditional agency theory. This is because under conditions of measurement imperfections, unobserved multitasking,

ambiguity and latent economics of continuation (Greiling, 2005) more monitoring lead to losses. Greiling (2005) has argued that "agency loss occurs in their view, if the insistence on monitoring destroys value by creating organizational dysfunctionality (in the form of productivity paradox and perverse gaming/pyrrhic \*1 "r N,mpl" wastes resources through ineffective incentive schemes".

There is a productivity paradox that occurs if significant incentive incongruence between the principal and the agent exists plus if the adopted indicators are inappropriate or the monitoring is so expensive (and socially wasteful) such that any social efficiency gains are swamped. For situations of perverse learning inefficient measures allow the agent to beat the numbers without making any extra effort on behalf of the principal. Whereas in the case of a pyrrhic victory the present costs of implementing a new information system outbalance the future productivity gains (Greiling, 2005). Jacobides and Croson (2001) have referred these situations, as "giving away the store". These situations occur, if more incentive bonus is paid to the agent than the total extra benefit created. The reasons for this circumstance are result of poorly designed incentive systems (Jacobides and Croson, 2001). Therefore performance measurement will not in all situations increase the efficiency so concludes Greiling. The performance contracts executions are based on the premise of monitoring and evaluation. The most fundamental question that arises with respect to public service in Kenya where most employment relations in the employment contract is permanent and pensionable terms (i.e. Career for life) is: does monitoring increase work effort?

Principal-agent theory suggests that tighter monitoring will raise an agent's work effort and will be applied provided that transaction costs are low. However, when a psychological contract exists between principals and agents, the agents perceive increased monitoring as an indication of distrust, and this induces them to reduce work effort (Bruno, 1993). According to Bruno this "crowding out effect" is likely to dominate when the relationship between principals and agents is personal, while the "disciplining effect" is likely to dominate when the relationship is abstract, as in a competitive market setting. The empirical evidence from an econometric study and neighbouring sciences supports this proposition (Bruno, 1993).

In view of the debate advanced above using principal agent theory, performance contract fulfillment or violation is not dependent on improvement of principal's information situation (bl-formattveness principal) or stringent monitoring. Rather it is imperative to explore performance contract in the context of the complimentary psychological contract. T1\* Principal agent theory ignores very fundamental aspect of the agent that is human A dimension in performance and management practice. This is articulated by the psychological contract theory as highlighted below.

## 2J Psychological Contract Theory

Winter and Jackson (2006) have stated that in the past employee-employer relationship was perceived as a social exchange process based on the norms of reciprocity and mutual support. This is what was referred to as social exchange theory, which states that a productive employment relationship exists where there is a degree of balance in perceived employee-employer obligations. When a balanced and mutually supporting relationship exists, employees freely exchange their skills, effort and commitment in return for desired monetary and socio-emotional rewards provided by the organization or its agents (Meyer and Allen, 1997). Presently this employee - employer relationship is framed in terms of what is referred to as psychological contract.

Rousseau (1995) defined psychological contract as the unwritten promises, mutual expectations and obligations that exist between employees and their organizations. Much of the research has tended to focus on the "state" of the psychological contract. That is contract fulfillment, contract violation and its impact on work outcomes for example the job satisfaction, organizational commitment and turnover intentions. Research has not given due consideration on the organizational context that gives rise to these psychological states. According to Guest (1998), this has led to theory remaining underdeveloped in relation to the causes and content of the psychological contract.

The kinds of commitments employers and employees might make to one another are as shown table 1 below:

Table 2.1: Kind of commitment for employees and employers

Employee promise to:	Employer promise to provide:
Work hard	Pay commensurate with performance
Uphold company reputation	Opportunities for training and development
maintain high levels of attendance and Punctuality	Opportunities for promotion
⇒now loyalty to the organization	Recognition for innovation or new idea
^ c x l r a hours when required	Feedback on performance

Develop new skills and update old ones	Interesting tasks
Be flexible, for example, by taking on a colleague's work	An attractive benefits package
Be courteous to clients and colleagues	Respectful treatment
Be honest	Reasonable job security
Come up with new ideas	A pleasant and safe working environment

Source: Guest, O. (1998)

Winter and Jackson have argued that there are both managers and employees' work environment perceptions that influence the framing of psychological contracts. They have investigated contract content in the context of existing work environment conditions using Guest's (1998) causal model of the psychological contract. These conditions are those that employees and managers, as representatives of the organization (Kotter, 1973) are construed differently in explaining the psychological contract.

#### Perceived Organizational Support

The employee-employer relationship in terms of psychological contract theory assumes that employees increase their efforts carried out on behalf of the organization to the degree that the organization is perceived to be willing and able to reciprocate with desired impersonal and socio-emotional resources (Coyle-Shapiro and Kessler, 2000). This means that employees will perceive an organization that treats its employees fairly and with consideration as one that has met its contractual obligations to them under the psychological contract (Winter and Jackson, 2006). The consideration in view of the employees is for example good working conditions, merit pay, training and career development opportunities. In this positive state of mind, employees are more likely to reciprocate feelings of perceived organization support by helping the organization reach to goals.

Studies of British civil servants (Coyle-Shapiro and Kessler's, 2002) has shown servants worked extra hours and volunteered to do extra tasks so long as they believed the organization had fulfilled its obligations to them. In Coyle-Shapiro and Kessler (2000) an

earlier study of local authority employees, found employees reduced their commitment and their willingness to engage in organizational citizenship behaviour when they perceived their employer had not fulfilled its part in the social exchange. Indeed recent studies have found that perceived organizational support acts as a descriptor of employees' exchange relationships in organizations, and depending on its quality, either protects employees from, or makes them more susceptible to, perceptions of contract violations by employers. According to organizational support theory, high levels of perceived organizational support create the impetus for employees to reciprocate. This reciprocation may take the form of organizational commitment and organizational citizenship behaviour (Winter and Jackson. 2006).

### 2J.I Psychological Contract

The psychological contract is defined as the set of reciprocal expectations between an individual employee and the organization. All expectations are not obligations, however, and according to Rousseau (1990). "psychological contracts differ from the more general concept of expectations in that contracts are promissory and reciprocal, offering a commitment to some behavior on the part of the employee, in return for some action on the part of the employer". There is considerable debate in the literature as to how psychological contracts should be conceptualized (Winter and Jackson. 2006). The conceptual foundations for the concept of a psychological contract were laid by Argyris (1960). Later on Levinson et al. (1962) expanded the concept further by highlighting the unwritten, implicit nature of the contract whereby the individual and the organization specify what each expects to give and receive from each other in the relationship.

Rousseau (1995) has stated that the contemporary research has retained these core elements defining the psychological contract as dependent on "promises, reliance, acceptance, and a perception of mutuality" between an employee and the organization. Psychological contract is essentially an exchange relationship between the organization and individual employees. But the researchers are yet to determine the level of engagement (Winter and Jackson. 2006). There are those who support the multi-level approach who argue that in framing psychological contracts, there is need to consider the differing expectations and obligations of both the organization and the employee (Herriot

" That is, the contract should be viewed from the perspectives of both the

employee and employer. According to Coyle-Shapiro and Kessler (2000), it is this dual consideration which makes it possible to investigate any perception of mutuality that may exist between the two contract partners, and hence possibly be able to assess how well the employer has fulfilled its obligations to its employees.

Rousseau (1995) and her followers assert that psychological contracts are formulated solely in the minds of individuals and as such they reflect individual beliefs, shaped by the organization, regarding terms of an exchange between employees and the organization. The individual expectations, promises and obligations of the employee towards the organization, and of the employer towards the employee (Rousseau, 1990), are what form the cognitive - perceptual definition of psychological contract. Thus stated that psychological contract forms when, "an individual perceives that contributions he or she makes obligate the organization to reciprocity (or vice versa)". Psychological contract hence constitutes the unilateral belief in the obligation of reciprocity.

### 2-3.2 Psychological Contract Core Dimensions

The identified and distinguished core dimension of psychological contract includes transactional, relational and training/career development contracts (Coyle-Shapiro and Kessler, 2000; Robinson et al., 1994). Whereby a transactional contract involves short-term monetary exchanges such as merit pay (Robinson et al., 1994) and requires limited involvement by the organization and employee. And a relational contract involves broad, long-term obligations and reflects socio-emotional elements such as trust, commitment, and loyalty (Cavanaugh and Noe, 1999). Meanwhile training and career development has also been identified as a unique component of the psychological contract (Coyle-Shapiro and Kessler, 2000). As part of the new employment relationship, employees are expected to exchange effort and commitment in return for the organization providing employees appropriate training and career development opportunities.

Others have advanced the debate that since the psychological contract concerns mutual expectations based on perceived employee-employer promises and/or obligations, the contract is open to re-evaluation as changes in the work environment occurs (Brooks and Feldt, 2000; Herriot et al. 1997). The re-evaluation occurs in the context of organizational structure engineering (e.g. downsizing and delayer process) in effort to

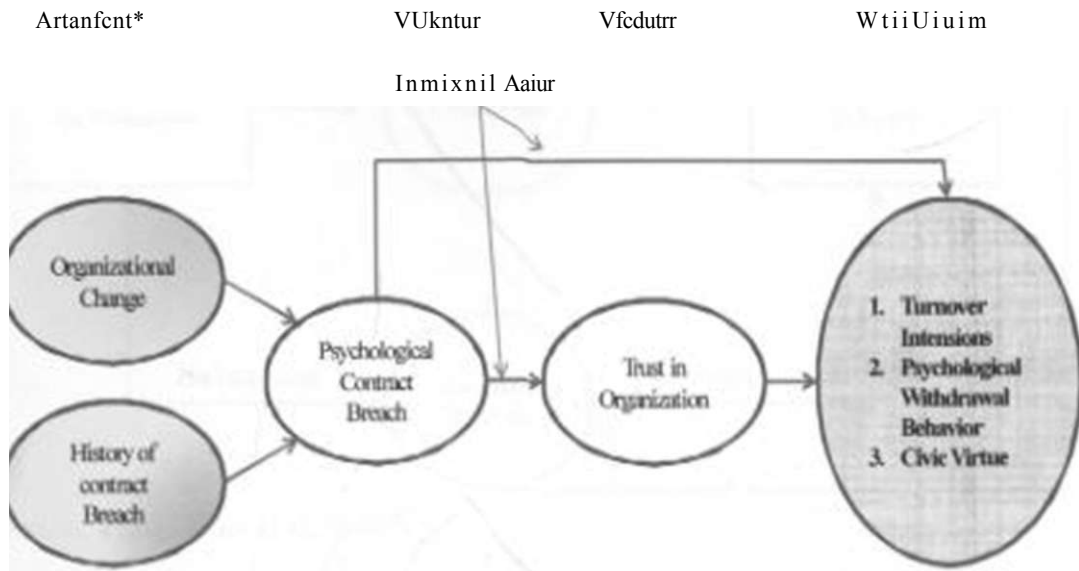


ensure lower costs and greater administrative efficiencies (e.g. performance contracting). The managers and employees in such contexts do experience greater work intensification as they take on a broader range of additional roles and responsibilities (Brooks and Harlald. 2000). Freese and Schalk (1996. cited by Winter and Jackson. 2006) observed that, in order for employees to accept these new arrangements as a satisfactory; the exchange between themselves and the organization may be intrinsically motivated by perceived personal development opportunities and hence report more commitment to their work and organization. On the other hand those employees who do not accept the validity of such arrangements are more likely to construe such changes as a violation of employer obligations (Winter and Jackson. 2006) and reduce their levels of organizational commitment accordingly (Coyle-Shapiro and Kessler. 2000). Psychological contracts influence commitment (Conway and Briner. 2005). Changes that affect the contract may have implications for commitment and employee behavior.

## 2J.J Psychological Contract Breach

As discussed earlier psychological contracts consist of a set of beliefs about the exchange terms and conditions between the employee and the employing organization (Rousseau. 1995) An important aspect of the psychological contract is the employees' expectation that the organization will adequately deliver on its promises. When employees perceive that the organization has not lived up to its promises, then this results in psychological contract breach (Rousseau. 1995). Breach of the psychological contract has negative implications for a wide spectrum of employee attitudes and behaviours (Coyle-Shapiro and Kessler. 2000; Herriot et al. 1997; Restubog et al., 2005; Turnley et al. 2003). When a psychological contract is violated, employees may experience anger, distrust, reduced loyalty and commitment, and increased propensity to leave the organization (Robinson and Rousseau. 1994).

Figure 2J: Model of Psychological Contract Breach

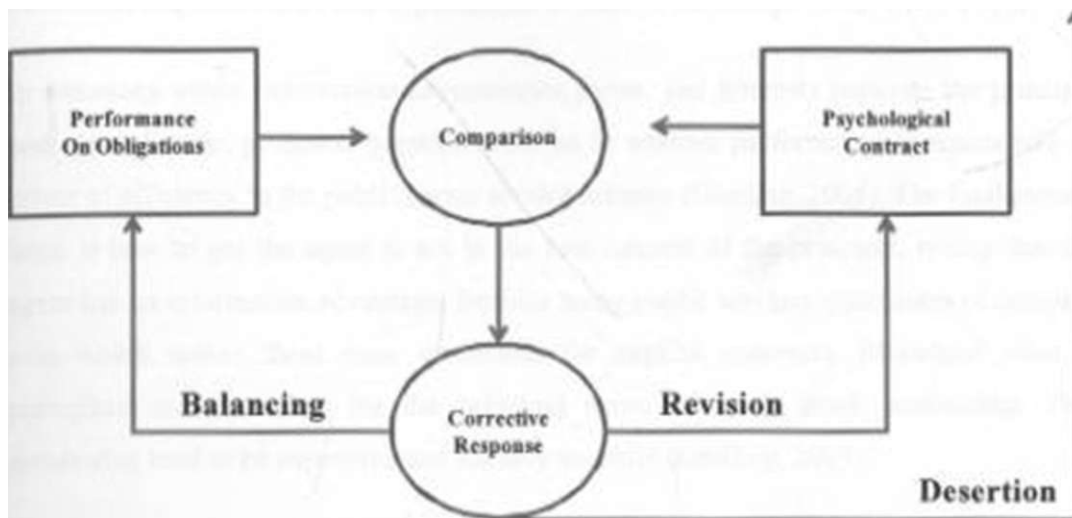


Source: Restubog, et al., (2007)

#### 2.4 Psychological Contract and Performance Management

Human resource processes and practices within organizations determine, to a large extent, the relationship between employer and employee (Rousseau and Greller, 1994). Performance management processes, in particular, play a key role in creating a framework within which the psychological contract between employer and employee is determined. Performance management is usually taken to comprise three key elements: (i) the setting of objectives, derived from corporate and business unit (or divisional) strategies; (ii) the evaluation of performance; and (iii) the linkage between evaluated performance and development and rewards in order to reinforce desired behavior (Storey and Sisson, 1993). The contract-making features of performance management include the understanding of job role, the fair, timely and accurate evaluation of performance, and the fair distribution of pay and development opportunities and the provision of feedback to employees (Rousseau and Greller, 1994).

Figure 2.4: Change Model of the Psychological Contract



Source: Philip Stiles et al (2007)

In stable conditions, the psychological contract will be reinforced by repeated contribution and reciprocity over time, and there will be convergence (to a large extent) between employer and employee concerning their understanding of the nature of the contract (Rousseau, 1990). However, organizations are now faced with new competitive conditions, and have to cope with dynamic environments - organizations and psychological contracts are now in transition (Robinson and Rousseau, 1994). These developments have brought performance management to centre stage: by specifying the new performance requirements of employees as the result of strategic change, and the rewards they will receive upon their fulfillment, organizations define new expectations and so alter the employment relationship.

## 2.5 Summary of the Literature Review

Performance contracts constitute the third phase of public service reforms that targets improvement of public service management (DPM, 2004; Kobia and Num, 2006). Since public sector organizations operate without market completions, performance measurement embedded in the performance contracts are a means to substitute for market completion (Radnor, 2004). Thus the basis for the introduction of performance contract in Public sector, is to enhance both static and dynamic efficiency together with probity and integrity. The performance contracts are anchored on strategic plans of institutions. The

PCs actually defines the principal agent relationship, which clarifies the obligations, intentions, responsibilities and expectations of each of the two parties (PCSC, 2005).

In situations where information asymmetries exist, and interests between the principal and agent diverge, a profound question arises as to whether performance contracts will be a driver of efficiency in the public sector service reforms (Greiling, 2005). The fundamental issue is how to get the agent to act in the best interest of the principal, noting that the agent has an information advantage. Besides many public services constitute complex jobs which makes them most unsuitable for explicit contracts. Elsewhere what is prescribed as a measure for the principal agent issues is much monitoring. This monitoring tends to be expensive and socially wasteful (Greiling, 2005).

Indeed fulfillment or violation of performance contracts is not dependent on improvement of principal's information situation (informativeness of principal) or stringent monitoring but rather the state of the agent's behavior in relation to the contract. Performance contracts work in devolved management structures which is the framework of changing behavior of employees. This framework according to Philip Stiles et al. (2007), is what determines psychological contract between the principal (employer) and the agent (employee). Brook and Hurtfield (2000), Herriot et al. (1997) has alluded to the fact that the psychological contract is re-evaluated as changes in the work environment occurs. It is in this view that following introduction of performance contracts in the local authorities alters the state of psychological contract of the employees. This means that the psychological contracts are in transition (Robinson and Rousseau, 1994). The research thus seeks to establish the management employees' state of psychological contract following the implementation of performance contract in a medium size local authority initially involved in the pilot stage.

## 2.6 Conceptual Framework

Many aspects of psychological contract are based on perceptions (Rousseau, 1995). Psychological contract is unwritten implicit promises, mutual expectations (inducements) and obligations between employees (agents) and employers (principals or organizations)\* Levinson et al., 1962; Rousseau, 1995). That is the contracts are promissory and reciprocal, offering a commitment to some behavior on the part of the employee, in return

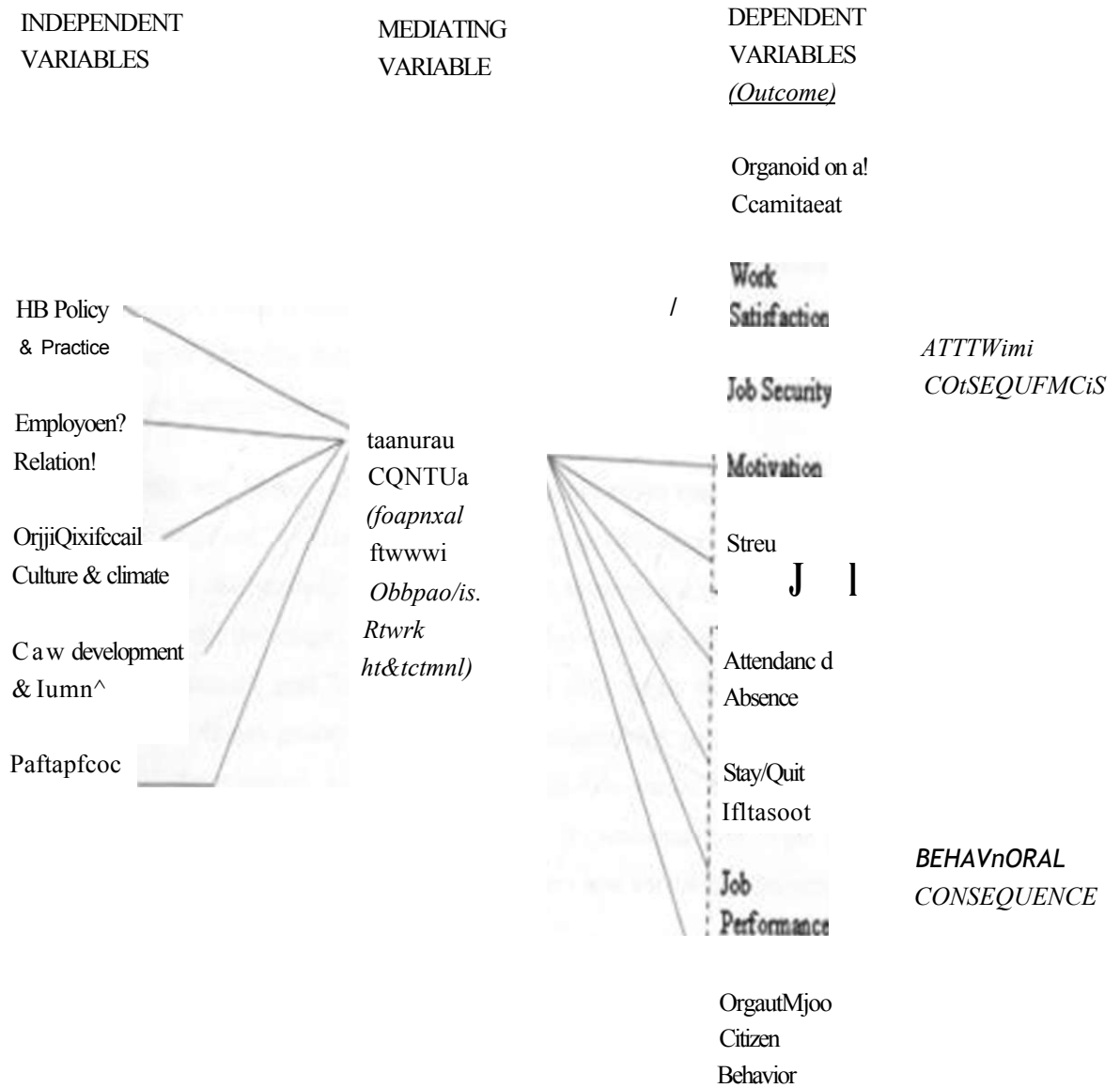
for some action on the part of the employer. This means that psychological contracts are formulated solely in the minds of individuals and as such they reflect individual beliefs. Thus the contract forms when, employees perceive that contributions they make obligate the organization to reciprocity or vice versa.

Fulfillment (delivery of the deal) and even breach/violation of the psychological contract will have positive and negative implications respectively, for a wide spectrum of employee attitudes and behaviors. When reciprocal promises, expectations or inducements and obligations are met; there is a positive state of psychological contract; which signifies delivery of the deal and fairness leading to mutual trust. As a result the attitudinal consequences from employees' perspective will be organizational commitment, work satisfaction, job security, motivation and less stress. Whereas the behavioral consequences will include, attendance, intentions to stay, job performance and organizational citizen behavior. In case of breach the opposite of these attitudinal and behavioral consequences occurs. The impact of this for an organization seeking improvement in efficiency and effectiveness is negative.

The research seeks to establish the state of psychological contract. The meaning of the state of psychological contract is the fulfillment, violation and work outcomes arising from its impact (Guest, 1998). Performance contracts have ushered in change in psychological contracts because by specifying the new performance requirements of employees and the rewards they will receive upon their fulfillment, public sector organizations define new expectations and the employment relationship is altered. Thus new expectations and obligations between the employees and organization have changed including the HR policies and practices, employment relations, organizational culture/climate, and levels of participation. This is what will lead to the change of the state of psychological contracts (Herriot et al., 1997).

The conceptual framework has considered the independent variables on the causes of psychological contract and dependent variables on its consequences. The psychological contract (comprising of expectations, inducements/rewards and obligation) is the mediating variable (see the theoretical framework next page).

Figure 2.5: Schematic Diagram for the Theoretical Framework



Source: Researcher

## CHAPTER THREE: RESEARCH METHODOLOGY

### 3.1 Research Design

The research method design was a case study. The justification for this method is that a case study is a research strategy or empirical inquiry that investigates a phenomenon within its life context. This method will also allow in-depth, longitudinal examination of a single instance or event (Eischnhardt. 1989). As a result the research may gain a sharpened understanding of why the instance happened as it did, and what might become important to look at more extensively in future research.

This case study was based on one of the local authorities that were initially incorporated in the pilot stage of implementation of the performance contracts in Kenya. This organization was deliberately selected based on assumption that the local authorities that participated in the pilot stage, were likely to form the best prepared group in the study of performance contracts and hence they would also form the best research group for observation. The target group includes top managers that participated in the negotiation and design of the contract and who are supposed to make the other employees below them accountable for performance contracts implementation. The managers of the organization includes, section heads, chief officers and the chief executive officer.

The research involved self administration of a questionnaire to the target group. The target group included the management level employees. That is the chief officers or heads of department and section heads. The research questionnaire was adopted from Rousseau (1989) based on psychological contract inventory (PCI). The psychological contract inventory technical report version two year 2000 by Rousseau was also followed when ordering the questions. The questionnaire had four sets. It is notable that in each of the above four sets items were sequenced such that an item from one scale was completed, then an item from another until all other scales were represented, and then the sequence repeated. There are no items on the same scale that were near each other. The sequencing for the Employee and Employer Obligations was Short-term, Loyalty, Narrow, Dynamic Performance, Internal Development, External Development, Security. The sequencing for

the Employee and Employer Transition items was Uncertainty, Mistrust and Erosion. Finally at end of the PCI it contained some additional questions.

### 3.2 Data Collection

Primary data was used in the study. It was collected using a questionnaire (see appendix). The questionnaire was self administered. The drop and pick method was used. Envelope\* were used for confidentiality purposes. The questionnaire was divided into two parts. Part one sought information on the respondent profile. Part 2 contain measures on psychological contract of the management employees in the local authority. To secure the validity of the research work, the principles of Wengraf's (2001, cited by Winter and Jackson 2006) are followed for deriving appropriate theory-questions.

The instrument was direct adaptation from Rousseau (1989) designed around performance contract inventory or PCI. The PCI has five items for each proposed scale. A self scoring questionnaire was constructed by Rousseau (2000) for instrument development. Four items with the highest item-total correlation and appropriate factor loadings were used for the analyses. Each construct is measured twice. That is, first in terms of the respondent's beliefs regarding the Employer's obligations to the employee and secondly, in terms of the Employee's obligations to the organization.

The Psychological Contract Inventory (PCI) is designed to serve as a psychometrically sound tool for assessing the content of the psychological contract that could be generalized for use in organizational research, and as a self-scoring assessment to support executive and professional education. Psychological contract inventory focus on aspects of the psychological contract believed to generalize across persons and settings (i.e. etic perspectives and not emic ones, where the focus is on local and idiosyncratic content) Rousseau (2000). The Psychological contract inventory contains both content and evaluation measures and first, it assesses a variety of specific terms (e.g., "to train me only for my particular job", "opportunities for promotion") that can occur in employment. The PCI also assess the extent to which the respondent believes that he or she has fulfilled commitments made to the employer and in turn, whether the employer has fulfilled its commitments. Then the Psychological contract inventory will also assess individual objective reports regarding a particular employment relationship.



### 3.3 Data Analysis

The data was first classified into psychological contract dimensions of the seven employer and employee obligations categories like relational, transactional, balance - dynamic and three transitional categories (Rousseau, 2000) in order to facilitate its comprehensiveness and analysis (see appendix 5). Then the data was analyzed using descriptive statistics. Descriptive statistics are used to describe the basic features of the data gathered from study.

The descriptive statistics was presented in simple graphics analysis, which formed the basis of quantitative analysis of the collected data. The graphical data displays were used, in which graphs summarized the data in order to facilitate comparisons. That is tabular description in which tables of numbers summarize the data. Then the arithmetic means, standard deviations were calculated and graphs representing the data were used to draw up observations and make inferences.

## CHAPTER FOUR - DATA ANALYSIS. FINDINGS AND DISCUSSION

### 4.1 Introduction

In this chapter the data are initially classified in categories of psychological contract dimensions which included relational, transactional, balance dynamic and three transitional. That is for sections two (a), (h) and (c) where as two (d) was maintained in the analysis as it was. In case of part one the descriptive statistic table are presented and graphs developed to aid in the analysis. The data in this case was analyzed then the findings were also presented and discussed. The frequencies, percentages, means, standard deviations and standardized scores are computed for all variables. The same is also repeated for whole sets of variables. Ilicse values are shown in different tables for psychological contract sub scales and finally the obligation or commitment for either of the contract parties, rhc research findings were analyzed beginning first with part one then part two as indicated here under.

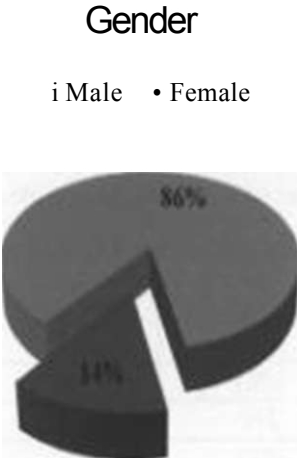
### 4.2 Demography characteristics of the Respondents

Twenty eight respondents who were composed of managers of thee organization. That is the profile of the section heads or line managers and heads of departments or the functional managers were used to collect data, rhc gender representation was fourteen percent female and eighty six percent male as shown in table 4.1 and figure 4.1.

Table 4.1: Gender statistics

	<b>Frequencies</b>	<b>Percentages</b>
<b>Male</b>	<b>24</b>	<b>86%</b>
<b>Female</b>	<b>4</b>	<b>14%</b>

Figure 4.1: Distribution statistics of the respondents by gender

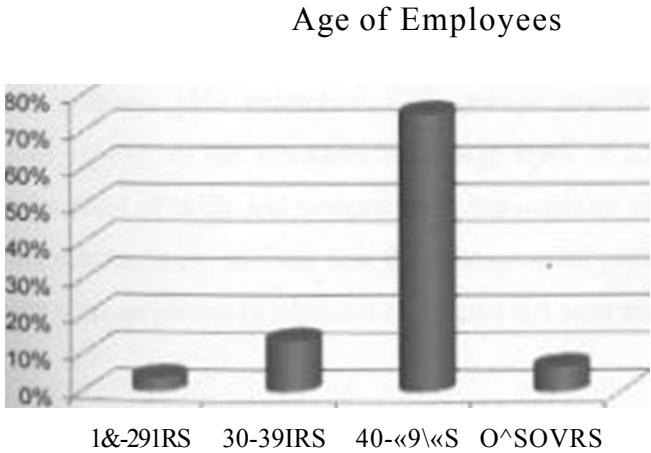


The age of the managers ranges were 19 to 29 years 4%. 30 to 39 years 14%. 40 to 49 years were 75% and over 50 years 7%. This implies that the organization has an ageing work force as shown in table 4.2 and Figure 4.2.

Table 4.2: Age distribution statistics

Years	Frequencies	Percentages
19-29	1	4%
30-39	4	14%
40-49	21	75%
50>	2	7%

Figure 4.2: Distribution statistics of respondents by age in years

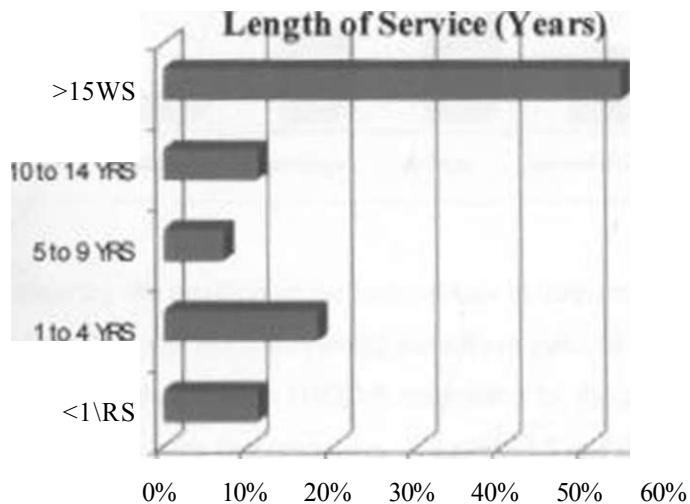


Length of tenure of employment was also captured. This measured in terms of the number of years the employees had worked for the organization and not necessarily the period held on the present job position. This measure revealed that those who have worked for over 15 years are 54%. 10 to 14 years 11%, 5 to 9 years 7% 1 to 4 years 18% meanwhile less than one year 11%. Using cumulative frequency it shows 65% of the managers have a long service with the organization. The results are as shown in table 4.3 and figure 4.3:

Table 4.3: Length of service distribution statistics

Years	Frequencies	Percentages
< 1	3	11%
1 to 4	5	18%
5 to 9	2	7%
10 to 14	3	11%
15 >	15	54%

Figure 4.3: Distribution of respondents by length of service in years

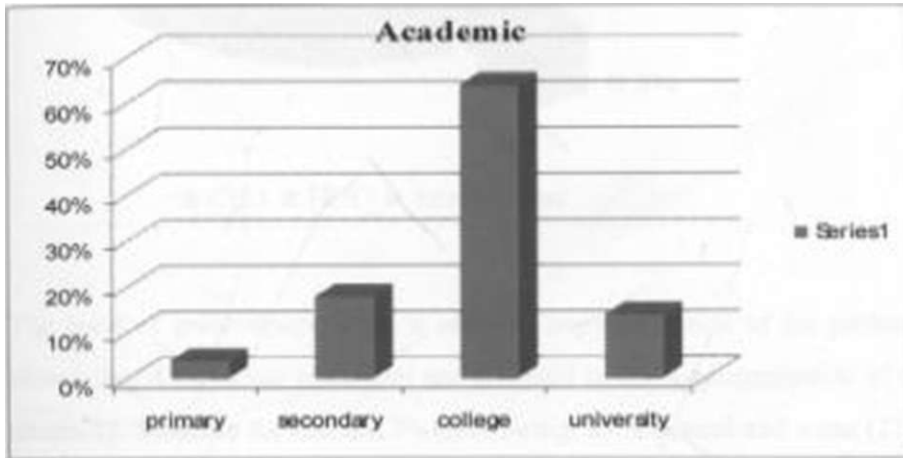


As regards academic qualification the results were as shown in the bar chart below. That is 4% primary, 18% secondary, 64% college and 14% university level. This implies majority (64%) of the managers have high level of academic qualification. This shows that the level of skills and competencies the majority of the managers are college trained which substantively indicate that the management work force is fairly well trained. The results were as shown in table 4.4 and figure 4.4 next page.

Table 4.4: Academic levels statistics

Academic	Frequencies	Percentages
Primary	1	4%
Secondary	5	18%
College	18	64%
University	4	14%

Figure 4.4: Distribution of respondents' academic qualification



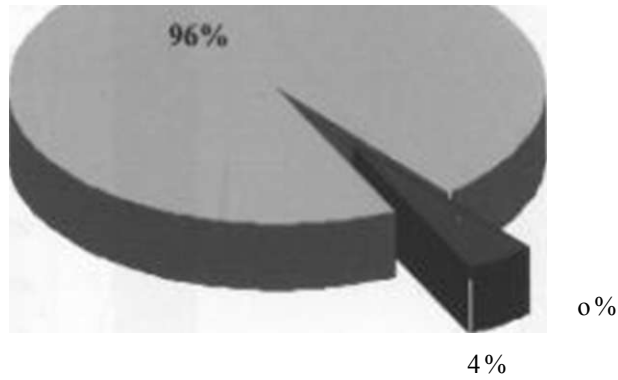
Considering the position of the respondents in terms of job positioning the results showed that the CEO was not interviewed but eleven percent chief officers or what is referred to as heads of departments (HODs) responded to the questionnaire while 89% were the section heads or the line managers. Die table 4.5 and the figure 4.5.

Table 4.5: Distribution of respondents' position in the organization

Position	Frequency	Percentage
CEO	0	0%
Head of department	3	11%
Section head	25	89%

Figure 4.5: Distribution of respondents' position in the organization

### Position at Work



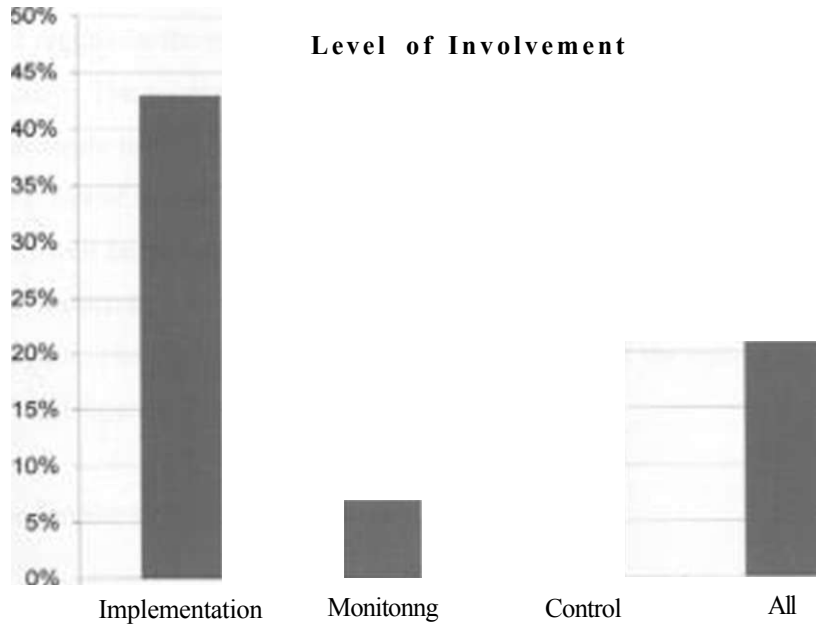
1 CliO • HOD • Section Head

The level of involvement when it came to implementation of the performance contracts shows that 43% of the managers are involved in the implementation of the performance contracts. Whereas the rest are 7% monitoring, 29% control and some (21%) are involved in all areas. The level of involvement will range from implementation, monitoring, control and all. Majority of the management of the organization are involved in implementation. The level of involvement in relations to performance contract, is as shown in table 4.6 and figure 4.6.

Table 4.6: Distribution of respondents by level of involvement in the PC

Level of Involvement	Frequency	Percentage
Implementation	12	43%
Monitoring	2	7%
Control	8	29%
All	6	21%

Figure 4.6: Distribution of respondents by level of involvement in the PC



43 Psychological Contract Inventory Data Analysis and Findings

(a) Employer Obligations

The first set contained the seven Employer Obligations. These were namely. Short-term. Loyalty. Narrow, Dynamic Performance. Internal Development. External Development, and Stability. The instruction to respondent was as follows: "Consider your relationship with your current employer. To what extent has your employer made the following commitment or obligation to you? Please answer each question using the following scale":

1	2	3	4	5
not at all	slightly	somewhat	moderately	to a great extent

The results were analyzed in relational, balanced dynamic and transactional dimensions. These are presented as here after.



## Relational

The results on the employer's relational were classified in categories subsets, stability and loyalty. The relational results in the areas of employees' job stability touching on steady and secure employment and wages plus stable benefits showed that the employer has to a great extent met the obligation. The relational - loyalty relates to personal welfare, long term well being and decisions aligned to employees' interests showed that the employer has moderately met the obligation. On overall the employer has met the relational contract- Rie classification was as shown below and the results are as indicated in table 4.7 and figure 4.7.

### The Employer Relational questions

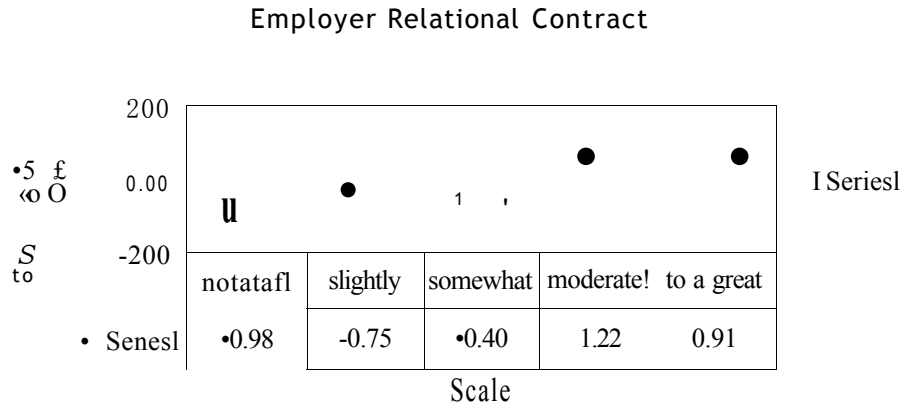
- (I) *Employee Stability*
- Steady employment
  - Secure employment
  - Stable benefits for employees' families
  - Wages and benefits I can count on
- (ii) *Loyalty*
- Concern for my personal welfare and my work
  - Be responsible to my personal concerns
  - Make decisions with my interests in mind
  - Concern for my long term well being

table 4.7: Distribution statistics of employer relations

	1	2	3	4	5
	not at all	slightly	moderately	moderately	to a great extent
Frequencies	21	28	36	72	65
Standardized	-0.98	-0.75	-0.40	1.22	0.91
Percentage	10%	13%	18%	32%	29%
Mean	4.48				
Standard deviation	2.26				



Figure 4.7: Employer Relational Contract Statistics



### Balanced Dynamic

The balanced- dynamic obligation criteria by employer, includes external employability, internal advancement, and dynamic performance. The external employability questions related to potential opportunities outside the organization, establishing contacts that create employment opportunities, marketable skills and assignments that enhance external marketability of employees. The results showed that the employer had met his obligation to a great extent. For internal advancement which included employer's obligations in creating internal advancement of employees, promotion, opportunities for career development and developmental opportunities within the organization. The results showed that the obligation has been met moderately. Whereas dynamic performance relates to issues of adjustment to challenging performance requirement, support to attain highest levels of performance and meeting highest goals and enabling employees respond to industry standards. The overall results in that section were that the employer has fulfilled balance dynamic obligation. The grouping of the questions in the employer balance dynamic contract including the overall results, were as hereunder.

- (i) *External Employability* Potential job opportunities outside the organization  
Contacts that create employment opportunities elsewhere

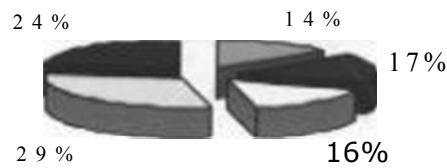
- Help me develop marketable skills
- Job assignments that enhance my external marketability
- (ii) *Internal Advancement* Advancement within the organization
- Opportunity for career development within the organization
- Opportunities for promotion
- Developmental opportunities within this organization
- (iii) *Dynamic Performance* Enable me to adjust to new, challenging performance requirements
- Support me to attain the highest possible levels of performance
- Help me to respond to an even greater industry standards
- Support me in meeting increasingly higher goals

Table 4.8: Distribution statistics for External employability. Internal Advancement. Dynamic Performance - (i), (ii) and (iii) above

	1	2	3	4	5
	not at all	slightly	somewhat	moderately	to a great extent
Frequencies	46	56	52	99	79
Percentages	14%	17%	16%	30%	24%
Standardize	-0.92	-0.65	-0.65	1.48	0.57
Mean	66.4				
Standard deviation	22.1				

Figure 4.8: Employer Balance Dynamic Contract

### Balanced Dynamic



- **not at all**
- **slightly**
- **somewhat**
- **moderately**
- **to a great extent**

### Transactional

On transactional narrow, that is areas on limited involvement, job limited to specific well defined tasks and performing a limited set of duties and training for the current job only the results indicated that the obligation was moderately met. Whereas transactional short term, results were based on questions of length of employment and terms and future retention of the worker. This has been shown in the table next page. The results were not «i all. This was consistent with the fact that in the respondent profile results showed that the employees have been in employment for a long time. The results were as follows:

*(0) Narrow*

Limited involvement in the organization

A job limited to specific well defined responsibilities

Training me only for my current job

Require me to perform only a limited set of duties

*di) Short term*

Short term employment

A job only as long as the employer needs me

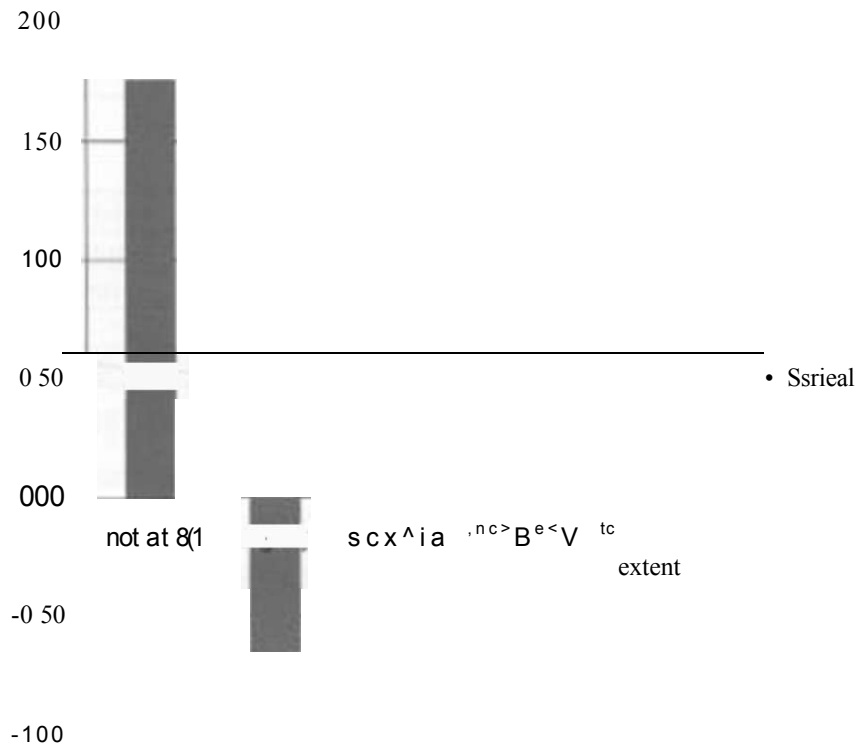
A job for a short time only

Makes no commitment to retain me in the future

Table 4.9: Employer Transactional Contract

	1	2	3	4	5
	not at all	lightly	moderately	to a great extent	
Frequencies	131	13	26	19	35
Percentages	58%	6%	12%	8%	16%
Standardize	1.76	-0.65	-0.36	-0.53	-0.20
Mean	44.8				
Standard deviation	48.9				

Figure 4.9: Employer Transactional Contract Statistics



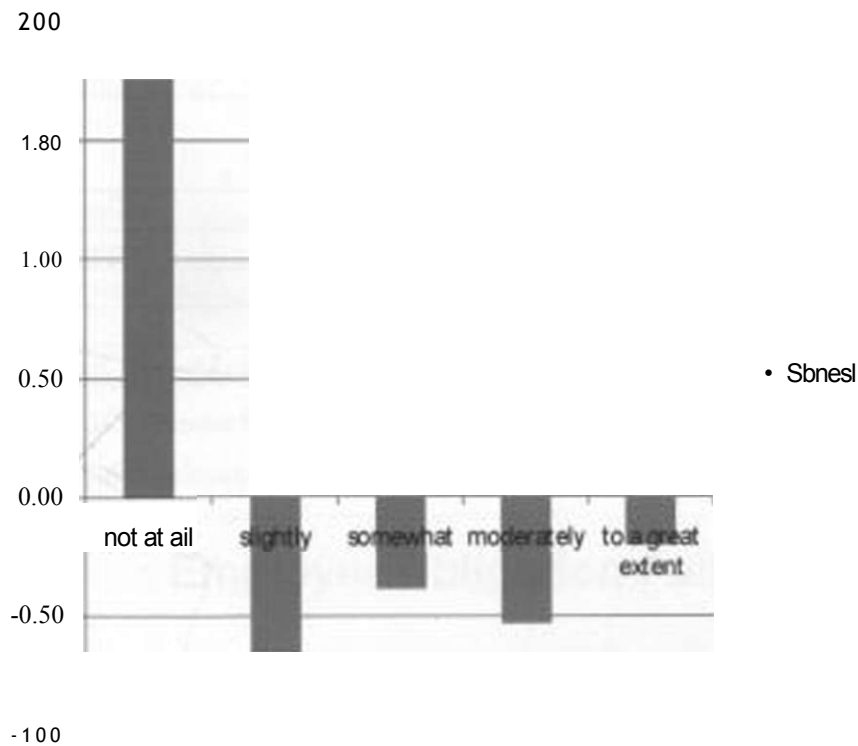
#### Summary of Employer Obligations

On overall the employees' consideration on their relationship with the employer and their perceptions regarding the extent to which their employer made the commitment or obligation to them on the seven employer's obligations, the results showed that this has been attained moderately. But in case of "Stable benefits for employees' families" the employees' perception is that the employer has not at all achieved this obligation. Employer had not at all provided potential opportunities outside the organization nor had

Table 4.9: Employer Transactional Contract

	1	2	3	4	5
	not at all	slightly	somewhat	moderately	to a great extent
Frequencies	131	13	26	19	35
Percentages	58%	6%	12%	8%	16%
Standardize	1.76	-0.65	-0.38	-0.53	-0.20
Mean	44.8				
Standard deviation	4.89				

Figure 4.9: Employer Transactional Contract Statistics



#### Summary of Employer Obligation

On overall the employees' consideration on their relationship with the employer and their perceptions regarding the extent to which their employer made the commitment or obligation to them on the seven employer's obligations, the results showed that this has been attained moderately. But in case of "Stable benefits for employees' families" the employees' perception is that the employer has not at all achieved this obligation. Employer had not at all provided potential opportunities outside the organization nor had

he provided contacts that create employment opportunities. The Opportunity for promotion had also not at all been met. The employer does not at all require the employees to perform only limited set of duties. In case of "A job only as long as the employer needs me" the results were not at all. This implies the employees are assured of continued employment. And in that case the employees believe that the employer does not at all make no commitment to retain them in the future. The presentation below indicates that the employer 7 obligations or commitments have been met moderately. The descriptive statistics were as shown in table 4.10 and figure 4.10.

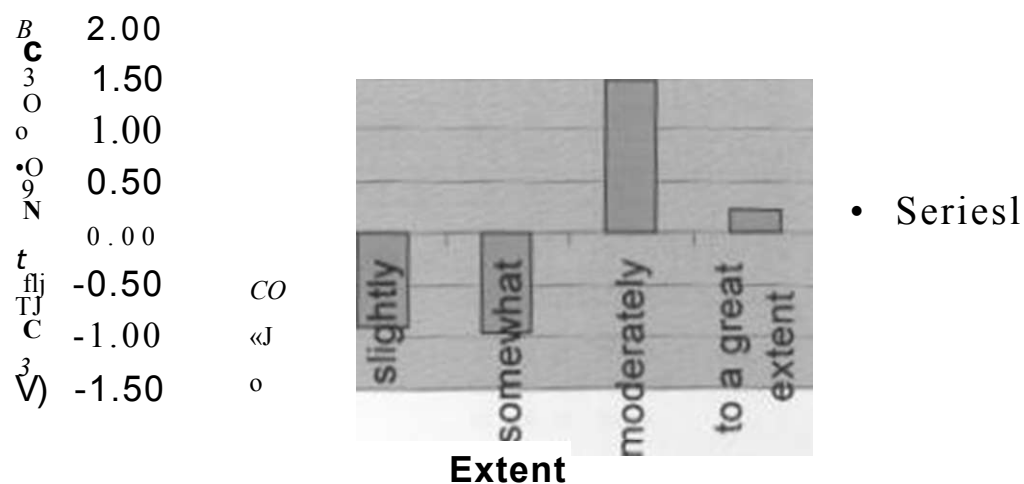
The overall results for the seven employer obligation were as show below.

Table 4.10: Distribution Statistics for seven employer obligation

	1	2	3	4	5
	not at all	slightly	somewhat	moderately	to a great extent
Frequencies	165	112	109	230	168
Percentages	21%	14%	14%	29%	21%
Standardize	0.17	-0.90	-0.96	1.48	0.23
Mean	1.568				
Standard deviation	0.961				

Figure 4.10: Standardized Scores Graph - employer obligation fulfillment Descriptive statistics for employer obligations

## Employer Obligation Fulfillment



Tabic 4.11: Seven Employer Obligations Descriptive Statistics Data

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(b) Seven Employer Transitional Scale

The second set contained the three Employer Transition scales namely. Mistrust, Uncertainty, and Erosion. This used the following instructions to accompany a 1-5 scale "To what extent do the items below describe your employer's relationship to you?" The results for the three employer transition namely mistrust, uncertainty and erosion all have been fulfilled by the employer. However specific areas were violated. That is results indicated that, employer to a great extent withholds information but docs share moderately the important ones with them. The employer however does to a great extent involve employees when introducing changes and does again to a great extent, trust them. On the overall, there is to a great extent certainty in regards to relations with the employer. That is the employees perception is that they are certain about the future relations with the employer and are sure regarding future commitment of employer to them. There is also no erosion in terms of wages and benefits. However the employees feel that they are performing more work for less pay. The classification of the employer transition questions on mistrust were as indicated here below.

Statement

<i>Transitional (Mistrust/</i>	<u>Withholds information from its employees</u> Doesn't share important information with its <u>employees</u> . Introduces changes without involving <u>employees</u> <u>Acts as if it doesn't trust its employees</u>
--------------------------------	---

The results expressed in terms of average, standard deviation, percentages, standardized scores were as follows.

Table 4.12: Employer Transition (mistrust) Distribution Statistics

	1	2	3	4	5
	not at all	slightly	somewhat	moderately	to a great extent
Frequencies	45	13	22	26	22
Percentages	40%	12%	20%	23%	20%
Standardized scores	1.64	-1.06	0.03	0.03	-0.30
Mean	2.56				
Standard deviation	11.8				



*Transitional (Uncertainty)* > I las uncertain future regarding its relations with me  
 Difficult to predict future direction of its relations with me  
Uncertainty regarding its commitment to me

Table 4.13: Employer Transition (Uncertainty) mistrust) Distribution Statistics

	1 not at all	2 slightly	3 somewhat	4 moderately	5 to a great extent
Frequencies	39	14	10	8	13
Percentages	46%	17%	12%	10%	15%
Standardize	6.45	-0.81	-1.98	-2.56	-1.10
Mean	16.8				
Standard deviation	8.44				

*Transitional (Erosion)*

8	Stagnant or reduced wages the longer 1 work here
9	Decrease benefits in the next few years
10	Demands more from me while giving me less in return
11	More and more work for less pay

Table 4.14: Employer Transition (Erosion) Distribution Statistics

	1 not at all	2 slightly	3 somewhat	4 moderately	5 to a great extent
Frequencies	51	13	12	14	22
Percentages	46%	12%	11%	13%	20%
Standardize	6.25	-2.06	-2.27	-0.38	-0.09
Mean	22.4				
Standard deviation	4.57				

The **summary** of the overall findings for employer transition were as shown below and also the descriptive statistic were as indicated in table 4.15.

Table 4.15: Employer Transition statistics

	1	2	3	4	5
	not at all	sightly	somewhat	moderately	to a great extent
Frequencies	135	40	44	48	41
Percentages	44%	13%	14%	16%	13%
Standardize	178	•0.52	-0.43	-0.33	-0.50
Mean	61.6				
Standard deviation	41.1				

Figure 4.11: Employer Transition

Employer Transition  
(standardized scores)

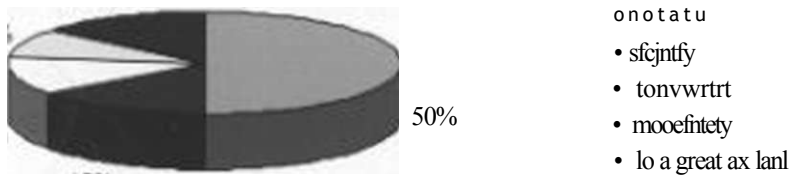


Table 4.16: The descriptive statistics for employer transitional

Statement	1		2		3		4		5		Average	Standard Deviation	TOTAL	
	Not at all		slightly		somewhat		moderately		to a great extent				Count	%
	count	%	count	%	count	%	count	%	count	%				
1 Withholds information from its employees	6	21%	1	4%	7	23%	13	40%	1	4%	5.6	4.90	28	100%
2 Doesn't share important information with its employees	11	38%	7	23%	4	14%	5	16%	1	4%	5.6	3.71	28	100%
3 Introduces changes without involving employees	14	50%	2	7%	3	11%	7	23%	2	7%	5.6	5.13	28	100%
4 Acts as if it doesn't trust its employees	14	50%	3	11%	8	29%	1	4%	2	7%	5.6	5.41	28	100%
5 Has uncertain future regarding its relations with me	16	57%	4	14%	3	11%		0%	5	18%	7.0	6.66	28	100%
6 Difficult to predict future direction of its relations with me	11	39%	5	18%	4	14%	3	11%	5	18%	5.6	3.13	28	100%
7 Uncertainty regarding its commitment to me	12	43%	5	18%	3	11%	5	18%	3	11%	5.6	3.71	28	100%
8 Stagnant or reduced wages the longer I work here	13	46%	4	14%	2	7%	2	7%	7	25%	5.6	4.42	28	100%
9 Decrease benefits in the next few years	19	68%	2	7%	4	14%	2	7%	1	4%	5.6	7.57	28	100%
10 Demands more from me while giving me less in return	11	39%	3	11%	3	11%	3	11%	8	29%	5.6	3.71	28	100%
11 More and more work for less pay	8	29%	4	14%	3	11%	7	25%	6	21%	5.6	2.07	28	100%
data summary	135	48%	43	15%	44	16%	40	14%	41	15%	61.6	41.25	300	100%

(c) Seven Employee Obligations

The results on the employee obligations were categorized just like the employer obligations. The seven employee obligations based on the question "To what extent have you made the following commitment or obligation to your employer?"

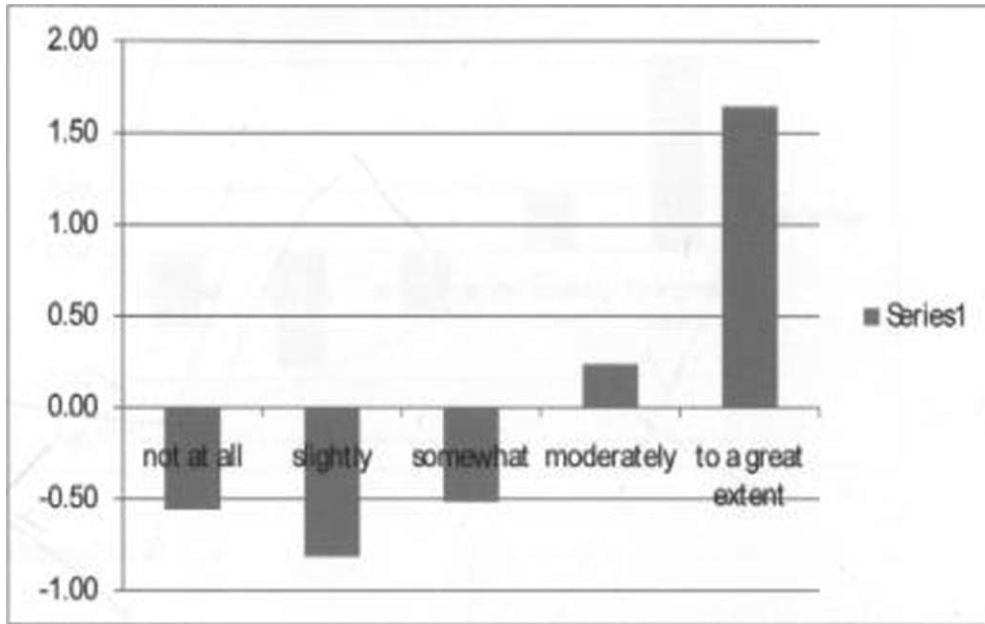
Relational

The relational employee stability questions the employees held the attitude that they would to a great extent remain in the organization indefinitely, make personal sacrifices, protect the organization's image and also they were concerned and committed to the organization. 'That is, on the relational the employees' obligations the perception is that to a great extent they would remain working for the organization and had no inclination to switch employment. The results on relational loyalty, employee obligations; is that to a great extent the employees showed promise of high organizational citizen behavior. The overall the results were summarized as follows in the next page.

Table 4.17: Employee relational statistics

	1	2	3	4	5
	not at all	slightly	somewhat	moderately	to a great extent
Frequencies	19	7	21	56	121
Percentages	8%	3%	9%	25%	54%
Standardized scores	-0.56	-0.82	-0.51	0.24	1.84
Mean	44.8				
Standard deviation	48.3				

Figure 4.12: Employee relational statistics Standardized score graph



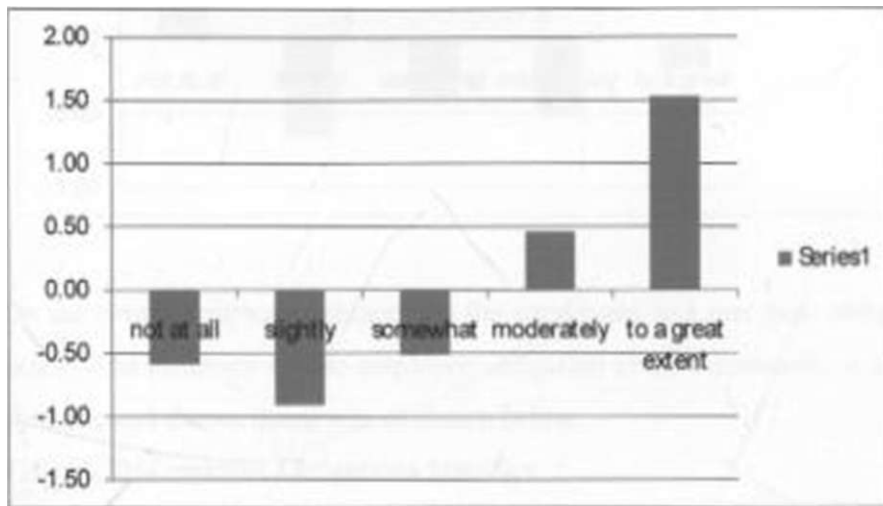
#### Balance dynamic

As for balance dynamic; the performance support the results were to a great extent that employees would accept challenging performance standards as well as new different performance demands. The employees were also to a great extent willing to adjust to changing demand or dynamic performance requirement. While on employee development the employees sought developmental opportunities that enhanced their value to the employer to a great extent. To a great extent the employees did seek internal opportunities for training and development. In case of external employability the employees were to a great extent willing to seek out opportunities outside the organization. The statistical representation was as shown on the next page.

Tabic 4.18: Employee Balance Dy namic Statistics

	1	2	3	4	5
	not at all	stightly	somewhat	moderately	to a great extent
Frequencies	31	17	34	76	122
Percentages	11%	6%	12%	27%	44%
Standardized scores	-0.58	-0.91	-0.51	0.47	1.54
Mean	56				
Standard deviation	42.97				

Figure 4.13: Distribution Statistics for Employee Balance Dy namic



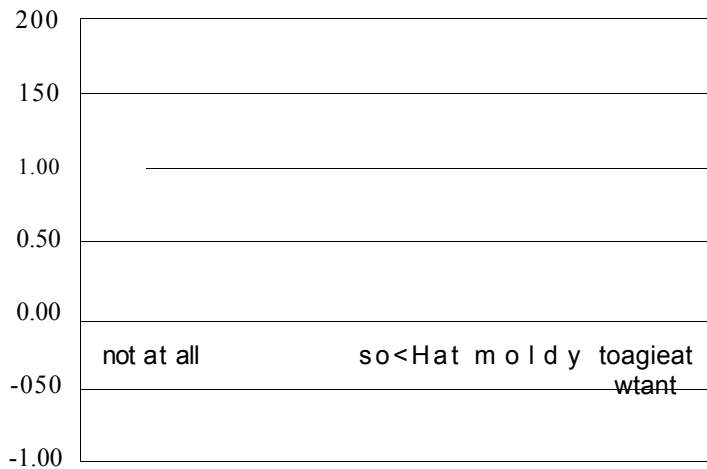
### Transactional

For transactional employee obligations narrow, employees would not at all perform only the required and limited number of responsibilities nor would they perform only what they are paid to do. In case of the short term the employees obliged to remain with the employer and would not quit whenever one wants or leaving any time one chose. The distribution statistics were as shown below.

Table 4.19: Employee Transactional Statistics

	1	2	3	4	5
	not at all	•fcflhtty	somewhat	moderately	to a great extent
Frequencies	131	13	26	19	35
Percentages	58%	6%	12%	8%	16%
Standardized scores	1.76	-0.65	-0.38	-0.53	•020
Mean	448				
Standard deviation	489				

Figure 4.14: Employee Transactional Standardized Scores Chart



On the overall employee obligations the employees had met their obligations to a great extent. The summary for the employee obligation in the dimensions of relational, balance dynamic and transactional was as shown below.

Table 4.20: Employee Obligations Statistics

	1	2	3	4	5
	not at all	slightly	somevvhath	moderately	to a great extent
Frequencies	181	37	81	151	278
Percentages	25%	5%	11%	21%	38%
Standardized scores	0.40	-1.24	-0.74	0.06	1.51
Mean	146				
Standard deviation	87.8				

Figure 4.15: Distribution Statistics for employee Obligations

The representation of the data in standardized form was as shown hereunder

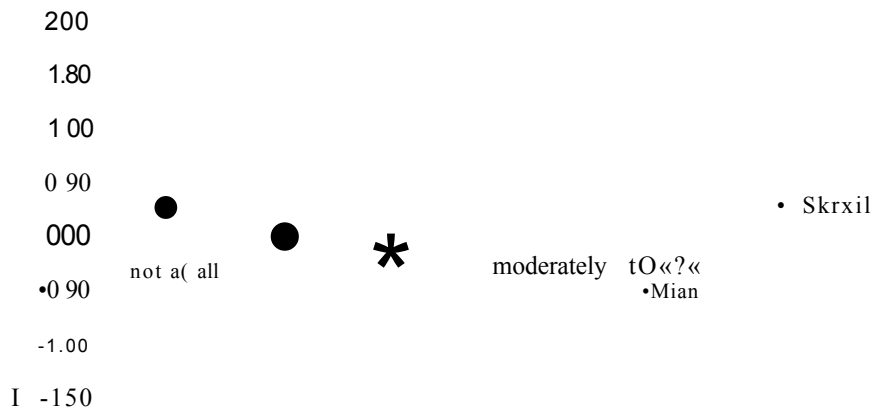


Table 4.21: Descriptive statistics for the seven employee obligation

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(d) Global Fulfillment

A global measure of Employer Fulfillment containing two items used previously by Rousseau (2000): "Overall, how well does your employer fulfill its commitments to you." And "In general, how well does your employer live up to its promises." Also included is two-item measure of Employee Fulfillment adopted by Rousseau and Tijoriwala (Cited by Rousseau, 2000): "Overall, how well have you fulfilled your commitments to your employer" and "In general, how well do you live up to you promises to your employer."

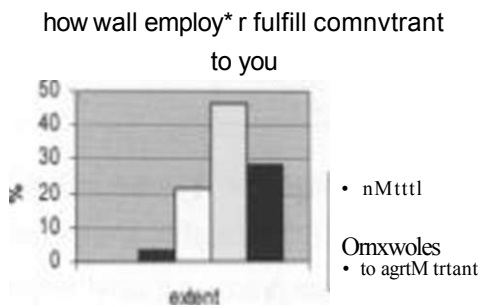
There was also a global measure of Satisfaction used: "Overall, how satisfied arc you in your job" where a five-item response set and as Rousseau has stated smiley faces was employed (as a cultural and gender-neutral variation on the GM-Faces Scale) by Kunin. (1955. Cited by Rousseau, 2000). To gauge whom respondent's believed held the responsibility for the employer's obligations, the following question was asked: "To what extent do you believe the commitments your employer has made to you arc the responsibility of the following: a) your coworkers/work group, b) your boss/manager, c) senior management, d) the organization generally. e) others) (whom?\_\_\_\_\_). The descriptive statistics for part (d) was as follows:

table 4.22: Global Measurement for commitments, promises, satisfaction and responsibility

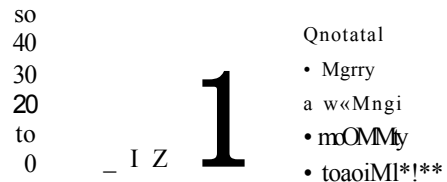
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M m	I	V.	IS	M	»	u	US	in	»s	n	»s	M	:	k	IMS



The fourth factor of the results tackled perception of employees regarding the fulfillment of employer's commitment to them. This was a global measure of Employer Fulfillment asking, "Overall, how well have you fulfilled your commitments to your employer" and "In general, how well do you live up to you promises to your employer." This related to the employees' commitment to the employer. The results were to a great extent there was contract fulfillment. The results were as shown in the bar charts below:

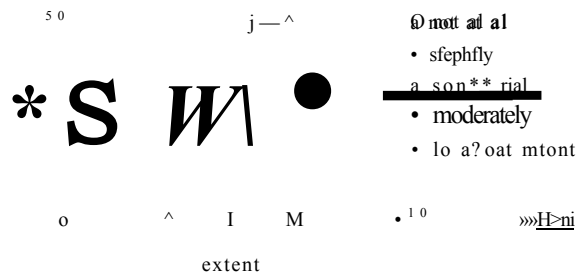


how well have you fulfilled your commitment to your employer

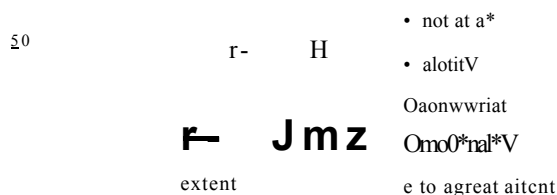


Then "In general, how well does your employer live up to its promises." This regards promises fulfillment by the employer to the employee, the perception was moderately the employer has fulfilled his promises to employees.

**how well does your employer live up to his promises?**



"In general how well do you live up to your promises to your employer" And in this case the promises fulfillment by the employee to the employer. The results were to a great extent the employees have met their contract of promises.



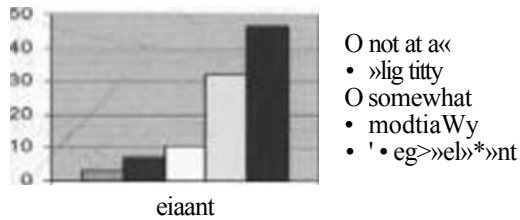
The global measure of satisfaction with the question. "Overall, how satisfied are you in your job" the results showed that the employees were moderately satisfied.

how satisfied are you in your job?

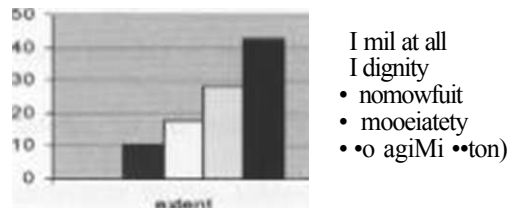


For the question to gauge whom respondents believed held the responsibility for the employer's obligations. The employees believed that the responsibility lied to a great extent with the senior management, organization and the boss. Whereas co worker the results were moderately as shown in the graphs below.

**responsibility to senior management**



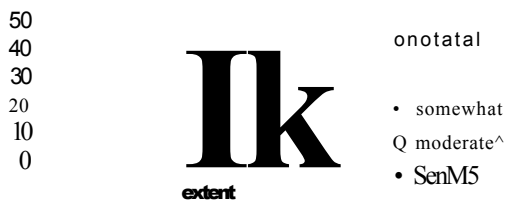
**responsibility to the organization**



**responsibility to your boss or manager?**

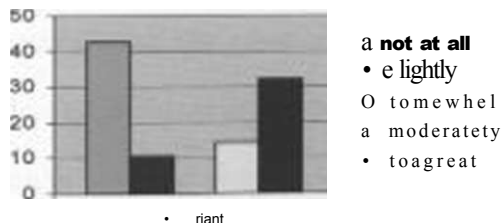


**responsibility to co-worker or work group.**



The responsibility for employer's obligation perception by the employees on others was not at all.

**responsibility to others**

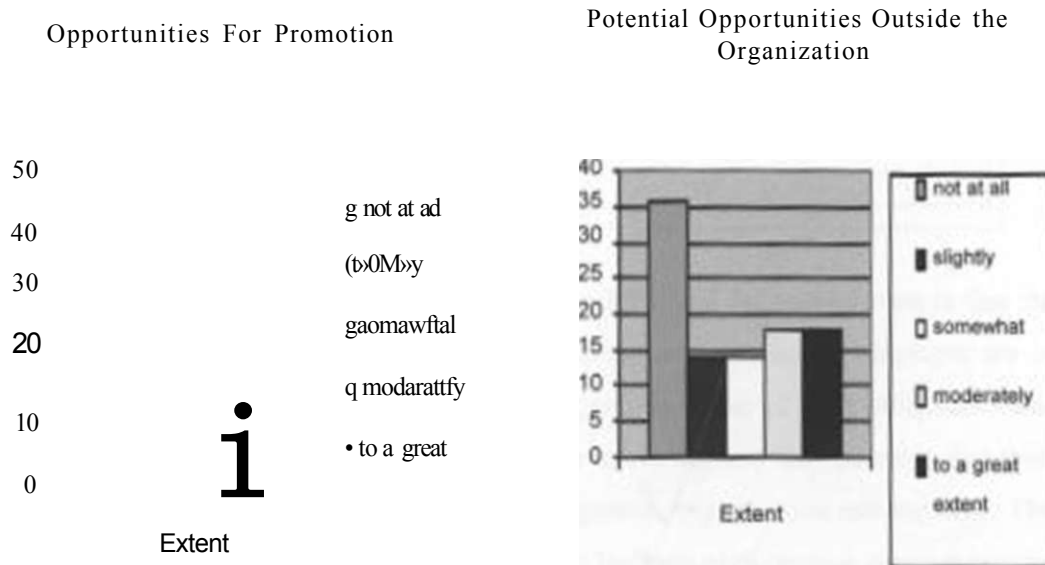


#### 4.4 Discussion

The results showed that the employer obligation are moderately perceived by the management in the area of relational obligation, specifically employees perceive the employer as moderately loyal by not taking responsibility for their personal concerns and also the relation is unstable since the employer does not at all offer stable benefits for employees family. The equitable compensation for the management employees is actually strategic concern. This is because the management staff is the key to the success of any organization, as they shoulder broad responsibilities for strategic planning and management of an organization. These staff should be well compensated because they are the ones who control and manage resources in an organization and therefore create value for the organization. The way an organization compensates the management plays an important role in motivating the critical performance needed to run it effectively and efficiently. The reasons for equitable compensation, is to enhance better staff performance by encouraging behavior that will contribute to the achievement of the organization's objectives and attain the performance management balanced score card. Equitable compensation underpins organizational change programs concerned with organizational culture change process by pegging change with rewards. Since performance contracting calls for a framework for changing behaviors in the context of devolved management structures, the equitable compensation and employee loyalty is a critical driver in reduction of principal agent conflicts.

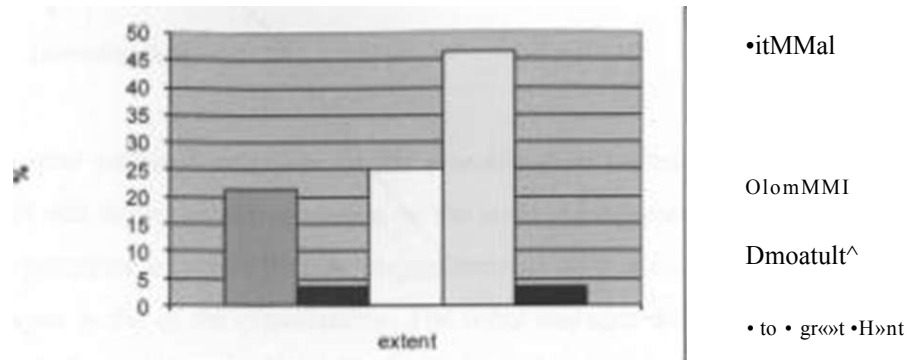
The above discussion ties with the findings for relational balance whereby there was no promotion within the organization and also advancement within the organization was not at all. Career development and development opportunities within the organization is moderate and this can result in low level motivation of the management staff which will

mirror down 10 the rest of the lower cadre employees. The employer also does not at all provide potential job opportunities outside the organization this too could lower management staff morale.



Performance contract is a commitment between the principal and agent or management. The management is supposed to down load the contract and make those below them accountable in order to achieve the set goals. This means communication and information transfer is a critical factor in success of the performance contract. The finding on employer's obligation transition showed a level of mistnist by the employees who perceive that information is withheld from them moderately and employer only shares the important one. This will eventually undermine the bottom line. There is further transition erosion where perception is that the employer demand more while giving less in return moderately or more work less pay. This means that the principle of equitable compensation plan is undermined. The results for information transfer and flow arc as shown below .

withhold\* Information



The global perception held by the management employees of the organization is that the employer has moderately met his obligations and promises whereas the employee arc of the view that they have met their part of the bargains in terms of their obligations and promises, lite level of satisfaction of employees is moderate, and they perceive that their performance depends to a large extent with management, organization and the boss. The major concern should be the issue of team building because performance contract require collective responsibility not individualism at work place. Research has shown that interactions among team members do influence effectiveness (Campion ct al., 1993) which is vital in performance management processes.

## CHAPTER FIVE - SUMMARY, CONCLUSION AND RECOMMENDATIONS

### 5.1 Introduction

The chapter makes a summary' of the research gives conclusion in the findings of the research and makes recommendation on the areas management should get involved in the design programmes would enhance organizational commitment and job satisfaction of the employees in the of the organization. The order includes discussion to establish whether the psychological contract is fulfilled or breached and conclusions will be drawn. Further recommendation will be made to the employer as regards the grey areas in management of positive psychological contract. There will be also recommendation for further research for the purpose of filling the gaps in this research, finally the chapter will indicate the limitation of the study.

### 5.2 Summary

The target group of the respondents. 86 % male and 14% female were all managers (89% section heads), whose level of training was 78% college and university. Their range of assignment in the performance contracts includes implementation (43%). monitoring (7%) and control (29%) and majority (54%) of them have being with the organization for over 15 years. The organization also has an ageing workforce with 82% falling over the age of between 40 and 55 years. That is a management force that is hugely male, well trained and developed age wise with long experience in the organization. The managers are also directly in charge of implementation of the performance contracts in the organization.

The psychological contract from the perspective of the managers was that the employer has moderately fulfilled the obligations. These obligations are categories of relational, balance, transactional and transitional. The violation of the seven obligations of the employer is particularly severe in job stability and loyalty. That is stability in the area of stable benefits is violated and in the area of loyalty the employer has no concern for employees personal welfare. The balance dynamic violation in external employability in that potential job opportunities outside the organization are not created by the employer.

That in event of organization re engineering and downsizing the employees would be faced with un-employability. The other employment violation is in balance of internal advancement particularly opportunity for promotion. In the dimension of dynamic performance there is substantial fulfillment of the contract. Transactional obligation by the employer was violated in the area of narrow with limited in the organization, and the employees' jobs are not limited to specific responsibilities. However the employer has fulfilled the transactional short term since the employment is permanent, and this is explained by the tenure of service the employees have worked in the organization. Transitional contract includes mistrust, uncertainty and erosion. The violation was observed in the area of mistrust where the employees had the perception that the employer withholds information from them. The other violation was in erosion where the managers have more work for less pay or compensation. However the transitional uncertainty has been fulfilled by the employer.

The psychological contract on employees' obligations to the employer or organization, the perception by managers showed that they have fulfilled the relational, balance and transactional obligations. This was complimented by the results of global fulfillment questions on how well one has fulfilled their commitment and lived up to their promises to the employer. The result showed the managers have to a great extent fulfilled their part of psychological contract.

The global fulfillment on commitment and promises made by the employer indicate that psychological contract has been met moderately. This compliments very well with results on how satisfied the managers are in their jobs which showed they are similarly moderately satisfied. This means that if there is moderate fulfillment of the psychological contract the employees' satisfaction will also be moderate. The psychological contract (comprising of expectations, inducements/rewards and obligations) is the mediating variable that leads to the attitudinal consequence in this case work satisfaction.

The research was seeking to find out the state of psychological contract of manager of the local authority following implementation of performance contract. The psychological contract state is that there is moderate violation which has led to moderate dissatisfaction of the managers. The question is what is the status of the performance contract outcomes or results and how do they correlate to the state of psychological contract. Is there a

relationship between performance contract outcomes and the psychological contract state? Performance management processes, in particular, play a key role in creating a framework within which the psychological contract between employer and employee is determined (Philip Stiles et al., 2007). As has been established through this case study the following implementation of performance contracts at the organization, the psychological contract has been violated moderately by the organization. Whereas the managers have fulfilled their contract the employer has not and hence they are moderately satisfied or dissatisfied.

### 5.3 Conclusion

The management employees' state of psychological contract following the implementation of performance contract at Municipal council is moderate. This means the obligations and commitments by the employer have been moderately fulfilled. The inverse side of this conclusion is that the employer has moderately violated the psychological contract either inadvertently, or disruption or even breach (that is from the managers' perspective). Whereas the managers perceive that they have fulfilled their part of the bargain in the contract. The psychological contract being a very subjective concept which influences employees' beliefs and behavior in the workplace it can have many influences on employee attitudes and can 'shape' workplace behavior (Rousseau, 1995). The violations were most commonly concerned with training and development, pay and benefits, and promotion opportunities.

When employees perceive the employer's loyalty is negative for example lack of taking responsibility for worker personal concerns, this may imply absence of performance appraisal system. This coupled with perception that the employer does not at all offer stable benefits for employees families indicate largely lack of any linkage between performance appraisal system and performance measurements. According to principal agent theory the solution to moral hazard in performance contracts is compensation, especially where there is linkage between performance appraisal and performance measurement exists (Greiling, 2005).

Employee development directly impact on the organization's ability to satisfy customers, resolve problems and crises, and adapt to changing market conditions. Paying for an employee's continuing professional education, for example, can help the organization



gain expertise in new technologies and opportunities or markets, which can save resources in the long run. In addition, most employees find learning new skills and taking on new challenges extremely rewarding. Satisfied employees have a more positive attitude, work harder, and stay in the organization longer than workers who aren't given opportunities to grow (Dewier. 2008). The organization should thus improve the current status from current moderate level of employee developmental opportunities to a great extent. In essence the council will require fulfilling its obligations and promises to the employee so as to score highly in the performance contracts. When employees perceive that the organization has not lived up to its promises, then this result in psychological contract breach (Rousseau, 1995). In this case the state of psychological contact is that there is a perceived breach of the psychological contract which could result to negative implications for a wide spectrum of employee attitudes and behaviors (C'oyale-Shapiro and Kessler. 2000; Guest, 2004; Herriot. Manning and Kidd, 1997). This behavior could impact negatively in the achievement of the performance contracts. A comparative research of the outcomes of performance contracts and state of psychological contract in this organization could verify this assertion.

#### S.4 Recommendations to the organization management

- (i) 'the employer has to step up the fulfillment of his part in the psychological contract by increasing the current status from moderately to a great extent. The employee's obligations and promises have to be met to a great extent level.
- (ii) The organization need ensure a policy of continuing education learning to assist organization acquire expertise in new technologies and performance management skills and optimize the use of resources in the long run. The teaming new skills and taking on new challenges will be extremely rewarding to the employees.
- (iii) The organization needs also to conduct an elaborate employee satisfaction survey in order to improve from the current moderate status to a great extent level. This will ensure that the employees' satisfaction is attained

since this will promote more positive attitude <sup>h,r,i</sup> <sup>^</sup> <sup>^</sup> work, and retention in the organization.

The employees' perceive that, performance \_\_\_\_\_ depends to a large extent with management, organization and the boss. <sup>n>k</sup> <sup>^</sup> cr than co worker. This need to be addressed hv the emp over. The orb.: <sup>nc</sup> or <sup>g\*</sup> nization should organize team management engagements because perform.. <sup>TMcc</sup> contract require collective responsibility. Research has shown that int <sup>Cra</sup> <sup>rac,loni</sup> among team members do influence effectiveness (Campion et 1993) which is vital in performance management systems.

The organization need to paradigm shift <sup>ty</sup> <sup>11,15</sup> can be done, by ensuring effective information transfer and informatU "ow as a critical factor in success of the perflormance contracts, rhe t,n . Ployer s obligation transition showed a level of mistrust by the en i Payees who perceive that information is withheld from them moderx.i • <sup>M<J</sup> employer only shares the important one.

The municipal council and public service t Emission should also have equitable compensation system for workers at management level since they are the key success factor during strateifi. i change management. These employees compensation schemes should |w , 'airly managed in order to guarantee control and management resource\*<sup>n,r</sup> an organization and hence create organizational value. That is the "«»man« appraisal systems should be linked to the compensation or s,, <sup>ard</sup> sterns in order for success achievement of performance contra. <sup>s and</sup> voidance of moral hazards in principal agent theory.

The recommendation on the findings fc\* <sup>rel></sup> <sup>40031</sup> whereby there was no promotion within the organization, a<sup>^</sup> « also advancement within the organization was not at all will require i <sup>tof</sup> nprehensive career path definition in the organization. Career dew, •opment md development opportunities within the organization is moden, <sup>,c,nd</sup> can result in low level motivation of the management staff «k.l will mirror down to the

lest of the lower cadre employees. This situation needs to be addressed as well.

#### 5.5 Limitation of the study

Non sampling error such as response differences, definitional difficulties differing respondents inability to recall information could have limited this results. The psychological contract inventory instrument that was use had an employer transition questions but lacked the employees\* transition questions. That is the second set contained the three Employer Transition scales namely. Mistrust. Uncertainty, and Erosion. This used the following instructions to accompany a 1-5 scale "To what extent do the items below describe your employer's relationship to you?" The last fourth set that lacked, could have been contained the Employee Transition scales which were comparable to those above for Employer Transition. The instruction could read "To what extent do the items below describe your relationship with your employer?" Once again, the same scale item of 1 to 5 could be used (Rousseau. 2008).

Further the employment relationship includes two parties to the exchange process, and so the state of psychological contract should have been viewed from both the employee and employer perspective. In future further research should cover the two perspectives, although it is notable that this research focused the management workers including some top managers of the organization who are also deemed to be (or represent) the employer. According to Coyle-Shapiro and Kessler, I. (2000). the two perspectives permit an examination of mutuality of obligations, which as they state, have not received much empirical attention.

#### 5.6 Recommendation for further research

In line with the above, the organization needs to augment this research by seeking to find out if there is correlation between current psychological contract status and the outcomes of the performance contract. That is finding out if there exists a relationship between the status of performance contract outcomes/outputs and the state of the management employees' psychological contract.

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## APPENDIXES

### Appendix 1: Questionnaire Guide

Interview questions are adopted from Rousseau (1999) psychological contract inventory.

#### THE PSYCHOLOGICAL CONTRACT INVENTORY

##### INTRODUCTION

1. Please answer all questions in order
2. Most questions can be completed by filling in one of the answer spaces. If you do not find the exact answer that fits your case use the one that is closest to it.
3. For most of these questions you will have five possible answers to choose from to indicate your thinking about each question
4. Remember the accuracy of your description depends on your straight forward in answering this questionnaire. You will not be identified with your answers.
5. Definitions
  - a) Your organization, it means Municipal Council of Thika
  - b) Your supervisor, it means the person to whom you report directly
  - c) Your work group or co-workers, it means all those persons who report to the same supervisor that you do

Now that you have completed the instructions, please begin with PART ONE, questions next page:



**SUCTION ONE: DEMOGRAPHY OF THE RESPONDENT**

1. What is your gender?

**Male**                      **Female**

2. What is your age?

**18-29 years**    **f**            **30-39 years**                      **40-49 years**                      **over 50 years'**

3. How long have you been working with this organization

**< 1 year**            **1 to 4 years**    **5 to 9 years**    **10 to 14**            **> 15 years**

4. What is your highest academic qualification?

**Primary**            |            **Secondary\_\_\_\_\_j**            **College\_\_\_\_\_**{**University**

5. Which of the following position do you hold in the department?

**Chief Executive Officer**            **Head of department**            **Section Head**

6. What is your involvement in implementation, monitoring and control of performance contract?

**Implementation;**            **Monitoring.**            **{Control**                      **All of them I**

**SECTION TWO: PSYCHOLOGICAL CONTRACT INVENTORY QUESTIONS**

(a) Consider your relationship with your current employer. To what extent has **your employer made the following commitment or obligation to you?** Please answer each question using the following scale:

**1                      2                      3                      4                      5**  
**Not at all      Slightly              Somewhat      Moderately      To a Great Extent**

<b>I</b>	<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
2	A job only as long as the employer needs me					
3	Concern for my personal welfare and my work					
4	Limited involvement in the organization					
5	Support me to attain the highest possible levels of performance					
6	Opportunity for career development within the organization					
7	Help me develop marketable skills					
8	Secure employment					
9	Makes no commitment to retain me in the future					
10	Training me only for my current job					
<b>II</b>	Be responsible to my personal concerns					
12	Help me to respond to an even greater industry standards					
13	Developmental opportunities within this organization					
14	Job assignments that enhance my external marketability					
15	Wages and benefits I can count on					
16	Short term employment					
17	Make decisions with my interests in mind					
18	A job limited to specific well defined responsibilities					
19	Support me in meeting increasingly higher goals					
20	Advancement within the organization					
21	Potential job opportunities outside the organization					
22	Steady employment					
23	Concern for my long term well being					
24	Require me to perform only a limited set of duties					

	<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
25	Enable me to adjust to new, challenging performance requirements					
26	Opportunities for promotion					
27	Contacts that create employment opportunities elsewhere					
28	Stable benefits for employees' families					

(b) To what extent do the items below describe your employers' relationship to you? Please answer each question using the following scale

1                      2                      3                      4                      5  
**Not at all      Slightly      Somewhat      Moderately      To a Great Extent**

Statement	"T"	r *	3	4	r r I
1 Withholds information from its employees					
2~ Difficult to predict future direction of its relations with me					
3 Demands more from me while giving me less in return					
1 4 Acts as if it doesn't trust its employees					
5 Has uncertain future regarding its relations with me					
6 Decrease benefits in the next few years					
r Introduces changes without involving employees			I		1
r Stagnant or reduced wages the longer I work here					-I
9 Doesn't share important information with its employees					
1 10 Uncertainty regarding its commitment to me					1
1 11 More and more work for less pay					● 1

(c) To what extent have you made the following commitment or obligation to your employer. Please answer each question using the following scale:

1                      2                      3                      4                      5  
**Not at all      Slightly      Somewhat      Moderately      To a Great Extent**

<b>Statemraf</b>		<b>j 1</b>	<b>2</b>	<b>4</b>	<b>S</b>
	Quit whenever I want				
1	Make personal sacrifices				
2	Perform only required tasks				<b>1</b>
3	Accept increasingly challenging performance standards				
4	Seek out developmental opportunities that enhance my value to the employer				
5	Build contacts outside this organization that enhance my career potential	-		1	
6	Remain with this organization indefinitely				
7	I have no future obligations to this employer				
8	Take this organization concern personally				
9	Do only what I am paid to do				
<b>10</b>	Adjust to changing performance demands due to business necessity				
<b>L</b>	Build skills to increase my future employment opportunities elsewhere				
<b>i n</b>	Plan to stay here along time		<b>+</b>		
12	Leave at any time choose				
13	Leave at any time choose				
14	Protect the organization's image				<b>1</b>
<b>I T</b>	Fulfill limited number of responsibilities				
16	Respond positively to dynamic performance requirements				
17	Make myself increasingly valuable to my employers outside the organization			1	"
18	Continue to work for present organization				
19	I am under no obligation to remain with this employer				
20	Commit myself personally to this organization	-			<b>I</b>

	<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	
21	Only perform specific duties i agreed to when hired			—	
22	Accept new and different performance demands				
23	Actively seek internal opportunities for training and development				
24	Seek out assignments that enhance my employability				
25	Make no plans to work anywhere else				

**Statement**

- 21 Only perform specific duties i agreed to when hired
- 22 Accept new and different performance demands
- 23 Actively seek internal opportunities for training and development
- 24 Seek out assignments that enhance my employability
- 25 Make no plans to work any where else



(d) Please answer the following questions using this scale:

**1**                      **2**                      **3**                      **4**                      **5**  
**Not at all**      **Slightly**              **Somewhat**      **Moderately**      **To a Great Extent**

	<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>1</b>	Overall how well does your employer fulfill its commitment to you					
<b>2</b>	Overall how well have you fulfilled your commitment to your employer					
<b>3</b>	In general how well does your employer live up to its promises					
<b>4</b>	In general how well do you live up to your promises to your employer					
<b>5</b>	Overall how satisfied are you in your job?					
<b>6</b>	To what extent do you believe the commitment your employer has made to you, are the responsibility of the following:					
	i. Your co-worker or work group					
	ii. Your boss or manager					
	iii. Senior management					
	iv. The organization					
	v. Others (state who)					



**Appendix 2: Organization structure Municipal Council of Thika**

Participating Departments in the research

Town  
Clerk

Deputy  
Town Clerk

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### **Appendix 3: Letter of Introduction to Respondents**

FRANCIS NDIRANGU NJENGA  
SCHOOL OF BUSINESS  
UNIVERSITY OF NAIROBI  
BOX 30197  
NAIROBI

November 2007

Dear Respondent.

#### **RK; COLLECTION OF SURVEY DATA**

I am a Post Graduate student at the University of Nairobi. School of Business. In partial fulfillment of the requirements for the degree of Master of Business Administration. I am undertaking a management research project entitled '*A Survey on the Provision of Internet Service Providers in Nairobi.*'

You have been selected to form part of the study. I therefore kindly request you to assist me in filling out the attached questionnaire. The information provided will be used exclusively for the purposes of this research and will be treated with utmost confidence.

Your co-operation will be highly appreciated.

Yours faithfully .

Francis Ndirangu Njenga  
STUDENT (Researcher)

Mr. James M. Gathungu  
SUPERVISOR

**Appendix 4: Letter of Research Conduct Approval**



**UNIVERSITY OF NAIROBI**  
SCHOOL OF BUSINESS  
\* \* \* \* \* RAM - LOWE KABETE CAMPUS

I, \_\_\_\_\_ of \_\_\_\_\_

DATE \_\_\_\_\_

**TO WHOM IT MAY CONCERN**

The bearer of this letter is \_\_\_\_\_  
Registration No. \_\_\_\_\_

« Master of Business Administration (MBA) student of the University of Nairobi.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would therefore, appreciate if you assist him/her by allowing him/her to collect data in your organization for the research.

The result of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you

**fKSkL**

PR. W.N. IRAKI  
COORDINATOR, MBA PROGRAM

UNIVERSITY OF NAIROBI  
SCHOOL OF BUSINESS

MBA OF HCF  
RAM - LOWE KABETE CAMPUS

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## Appendix 5: Data Classification Format

Classification adopted from Rousseau (2008) psychological contract inventory

### L EMPLOYER OBLIGATIONS

Consider your relationship with your current employer. To what extent has your employer made the following commitments or obligations to you? Please answer each question using the following scale:

1 Not at all    2 Slightly    3 Somewhat    4 Moderately    5 To a great extent

#### EMPLOYER OBLIGATIONS SHORT-TERM

A job only as long as this employer needs me

Makes no commitments to retain me in the future

Short-term employment

A job for a short time only

#### EMPLOYER OBLIGATIONS LOYALTY

Concern for my personal welfare

Be responsive to my personal concerns and well-being

Make decisions with my interests in mind

Concern for my long-term well-being

#### EMPLOYER OBLIGATIONS NARROW

Limited involvement in the organization

Training me only for my current job

A job limited to specific, well-defined responsibilities

Require me to perform only a limited set of duties

#### EMPLOYER OBLIGATIONS PERFORMANCE SUPPORT

Support me to attain the highest possible levels of performance

Help me to respond to ever greater industry standards

Support me in meeting increasingly higher goals

Enable me to adjust to new, challenging performance requirements

#### EMPLOYER OBLIGATIONS DEVELOPMENT

Opportunity for career development within this firm

Developmental opportunities with this firm

Advancement within the firm

Opportunities for promotion

#### EMPLOYER OBLIGATIONS EXTERNAL MARKETABILITY

Help me develop externally marketable skills

Job assignments that enhance my external marketability

Potential job opportunities outside the firm

Contacts that create employment opportunities elsewhere

#### EMPLOYER OBLIGATIONS STABILITY

Secure employment

Wages and benefits I can count on

Steady employment

Stable benefits for employees' families

## II. PSYCHOLOGICAL CONTRACT TRANSITIONS

To what extent do the items below describe your employer's relationship to you? Please answer each question using the following scale:

1 Not at all    2.Slightly    3 Somewhat    4 Moderately    5 To a great extent

#### NO TRUST

Withholds information from its employees

Acts as if it doesn't trust its employees

Introduces changes without involving employees

Doesn't share important information with its workers

#### UNCERTAINTY

Difficult to predict future direction of its relations with me

An uncertain future regarding its relations with me

Uncertainty regarding its commitments to employees

Uncertainty regarding its commitments to me

#### EROSION

Demand more from me while giving me less in return

Decreased benefits in the next few years

Stagnant or reduced wages the longer I work here

More and more work for less pay

### 111. EMPLOYEE OBLIGATIONS

To what extent have you made the following commitments or obligations to your employer?

Please answer each question using the following scale:

1. not at all    2. slightly    3. somewhat    4. moderately    5. to a great extent

#### EMPLOYEE SHORT-TERM

Quit whenever I want

I have no future obligations to this employer

Leave at any time I choose

I am under no obligation to remain with this company

#### EMPLOYEE LOYALTY

Make personal sacrifices for this organization

Take this organization's concerns personally

Protect this organization's image

Commit myself personally to this organization

#### EMPLOYEE NARROW

Perform only required tasks

Do only what I am paid to do

Fulfill a limited number of responsibilities

Only perform specific duties I agreed to when hired

#### EMPLOYEE PERFORMANCE SUPPORT

Accept increasingly challenging performance standards

Adjust to changing performance demands due to business necessity

Respond positively to dynamic performance requirements

Accept new and different performance demands

#### EMPLOYEE DEVELOPMENT

Seek out developmental opportunities that enhance my value to this employer

Build skills to increase my value to this organization

Make myself increasingly valuable to my employer

Actively seek internal opportunities for training and development

#### EMPLOYEE EXTERNAL MARKETABILITY

Build contacts outside this firm that enhance my career potential

Build skills to increase my future employment opportunities elsewhere

**Increase** my visibility to potential employers outside this firm  
Seek out assignments that enhance my employability elsewhere

**EMPLOYEE STABILITY**

Remain with this organization indefinitely  
Plan to stay here a long time  
Continue to work here  
Make no plans to work anywhere else

**IV. PSYCHOLOGICAL CONTRACT FULFILLMENT**

Please answer each question using the following scale:

1 Not at all    2 Slightly    3 Somewhat    4 Moderately    5 To a great extent

**EMPLOYEE FULFILLMENT**

Overall, how well have you fulfilled your commitment to your employer?  
In general, how well do you live up to your promises to your employer?

**EMPLOYER FULFILLMENT**

Overall, how well does your employer fulfill its commitments to you?  
In general, how well does your employer live up to its promises?