

**FACTORS INFLUENCING PERFORMANCE CONTRACTING ON DELIVERY OF  
CONSERVATION PROJECTS IN LAMU COUNTY, KENYA**

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## DECLARATION

I declare that this research project is my original work and has not been presented in any other university or any institution of higher learning for examination.

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

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## **DEDICATION**

This research project is dedicated to my family; my wife Leah Akinyi and mother Mary Odhiambo for their unwavering in-kind support towards my education, Paul Otieno, Daniel Odhiambo and the late Sophie Achieng for their financial contribution on my education.

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## ABSTRACT

Kenya has faced myriad challenges in delivering quality projects that not only provide value for money but also efficient provision of intended services to the public. The purpose of this study therefore was to determine factors that influence performance contracting on delivery of public projects with consideration to conservation projects in Lamu County. The researcher was interested in determining how involvement of employees in performance contract formulation influences service delivery in public projects, whether management procedures and practices influence performance contracts in the delivery of services in public projects, how implementation of performance contract influence staff performance in delivery of public projects and finally to establish whether performance contract contributes to the achievement of customer demands from public projects. The study also sought to analyze the influence of government policy on implementation of performance contracts. This study consists of Five Chapters; Chapter one highlights the introduction and implementation of performance contracting in Kenya and other countries. It also brings out the problem at hand in that as much as performance contracting has been introduced in state corporations; its influence on delivery of public projects has not been established. Chapter two reviews studies that have been done with particular reference to Performance Contracting and project delivery, theories behind performance contracting and a highlight of mainstream strategies used in ensuring success in performance contracting. Chapter three provides detailed information on the procedures used in conducting the research. Chapter four gives data analysis, presentation and interpretation while chapter five provides summary of findings, discussions, conclusions and recommendations. Descriptive research design has been used on a population of 13 parastatals in Lamu County that are not only under performance contract but also implementing or have implemented public projects. Stratified random sampling was used in administering questionnaires to 26 heads of departments and 39 employees who are on performance contract for the year 2013/2014. Therefore, the ideal sample size of the research was 65 respondents. 50 questionnaires were returned giving an average response rate of 76.9% for all respondents. Out of the four variables studied, all agreed to the research hypotheses. The study found out that involvement of employees in performance contract formulation, management procedures and practices, influence of implementation of PC on staff performance and contribution of PC on customer demands had tremendous influence on delivery of conservation projects. The data collection instruments used in the research were semi structured and structured questionnaires. Descriptive statistics was used for data analysis and the findings presented in the form of frequency tables and percentages

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background of the Study

Performance Contracting is a branch of management science referred to as Management Control Systems and is a contractual agreement to execute a service according to agreed-upon terms, within an established time period, and with a stipulated use of resources and performance standards (Gregg and Rene, 2005). Performance contracting is one element of broader public sector reform aimed at improving efficiency and effectiveness, while reducing total costs (Domberger, 1998). A performance contract constitutes a range of management instruments used to define responsibilities and expectations between parties to achieve mutually agreed results. It is a useful tool for articulating clearer definitions of objectives and supporting innovative management, monitoring and control methods and at the same time imparting managerial and operational autonomy to public service managers. It is therefore a management tool for ensuring accountability for results by public officials, because it measures the extent to which they achieve targeted results (Greer, Youngblood and Gray, 1999).

Maylor, (2006) defines performance contract as a Memorandum of Understanding (MOU). MOU is rooted in an evaluation system, which not only looks at performance comprehensively but also ensures forces improvement of performance managements and industries by making the autonomy and accountability aspect clearer and more transparent. OECD (1999) defines performance contract as a range of management instruments used to define responsibility and expectations between parties to achieve mutually agree results. While Smith (1999) argues that a common definition of performance contracting can be found, there are a considerable variety of uses and forms for quasi-contractual arrangements. The objective of performance contracting is the control and enhancement of employees performance and thus the performance of the whole institution.

In this dynamic and changing environment, one way to create growth and sustain performance is to innovate (Higgins, 1996). Luecke and Katz (2003), gave a convenient definition of innovation from an organizational perspective; successful introduction of a new thing or method. Innovation is the embodiment, combination or synthesis of knowledge in original, relevant, valued new products, processes or services.

The use of Performance Contracts has been acclaimed as an effective and promising means of improving the performance of public enterprises as well as government departments (Tilaye, 2007). Essentially, a Performance Contract is an agreement between a government and a public agency which establishes general goals for the agency, sets targets for measuring performance and provides incentives for achieving these targets (Hunter and Gates, 1998). They include a variety of incentive-based mechanisms for controlling public agencies controlling the outcome rather than the process. The success of Performance Contracts in such diverse countries as France, Pakistan, South Korea, Malaysia, India, and Kenya has sparked a great deal of interest in this policy around the world (Wheeler, 2001).

Governments are increasingly faced with the challenge to do things but with fewer resources. Differently, performance contracts can be defined as a range of management instruments used to define responsibilities and expectations between parties to achieve mutually agreed results (Greg and Rene, 2005). Martin, (2005) Performance contracting provides a framework for generating desired behaviour in the contest of devolved management structures. Employers view performance contracting as a useful vehicle for articulating clearer definitions of objectives and supporting new management monitoring and control methods, while at the same time leaving day-to-day management to the managers themselves.

Performance Contract System originated in France in the late 1960s. It was later developed with great deal of elaboration in Pakistan and Korea and thereafter introduced to India (OECD, 1997). In Denmark, contract management has been in operation since 1992, and has been an important instrument for the implementation

of performance management in the Danish State. This was as a result of the weaknesses of the framework management concept which led to introduction of a performance contracting providing increased focus on results. The success of Performance Contracts in such diverse countries as France, Pakistan, South Korea, Malaysia and India sparked a great deal of interest in this policy around the world (Wheeler, 2001).

Performance contracting been adopted in developing countries in Africa, including Nigeria, Gambia, Ghana to mention just a few. In Swaziland, the evolution of contract plans can be traced back to the early 1990s a period that witnessed the promulgation of the Public Enterprise (Control and Monitoring) Act of 1989 (Musa, 2001). The latter sought to establish viable control mechanisms for Swaziland's parastatal sector amid a national outcry that public enterprises were continuing, unabated, to be a financial as well as an administrative burden on the government (Musa, 2001). The overall aim of implementing Performance Contract by African countries is to address common issues which include performance improvement so as to deliver quality and timely services to the citizen, improve productivity in order to maximize shareholders wealth, reduce or eliminate reliance on the exchequer, instill a sense of accountability and transparency in service delivery and the utilization of resources and give autonomy to government agencies without being subjected to the bureaucracies and unnecessary procedures.

In Kenya the concept of performance contracting was first introduced in the management of State Corporation in 1989 as a way of responding to the needs of the taxpayers (Ombui and Kabui, 2011). This was against the backdrop of the government's key priorities of implementing and institutionalizing public sector reforms that would lead to an efficient, effective and ethical delivery of services to the citizens. A Parastatal Reform Strategy Paper, which was approved by cabinet in 1991, was the first official recognition of the concept of performance contracting as it was part of the policies that were recommended to streamline and improve the performance of State Corporations (Sensitization Training Manual, 2004). These policies were divestiture or liquidation of non-strategic parastatals, contracting out

commercial activities to the private sector, permitting private sector competition for existing state monopolies and improvements in the enabling environment of all strategic parastatals including removal of potentially conflicting objectives. Performance Contracts, where applicable were to be used to make transparent the cost of social services and to compensate the parastatals for their net costs (GOK, 2004).

The first two parastatals to be on performance contracting were Kenya Railways in April 1989 and National Cereals and Produce Board signed in November 1990. The PCø of Kenya Railways Corporation and the National Cereals and Produce Board failed because of lack of political goodwill to drive this process (it was perceived as donor-driven), the PCø did not conform to the requirements of the three sub-systems of PCø as they lacked the performance incentive system and there was no provision for the impact of external factors such as changes in GoK policy, inflation, exchange rate fluctuations that would have made evaluation fair (Kobia and Mohammed, 2006).

Kenya decided to re-introduce performance contracting in 2003. The initiative to introduce PCø in Kenya came from H.E. the president and was clearly spelt out in the Economic Recovery Strategy for wealth and Employment Creation (ERSWEC). In August 2003, the government appointed a committee to spearhead the introduction and implementation of performance contracts namely the performance contracts steering committee. The government made a decision to introduce PC in state corporations on a pilot basis in 2004. Sixteen state corporations signed the PCø by December 2004. The criteria for selecting the pilot companies included representation of diverse sectors and corporations, the government extended the process to public service beginning with permanent secretaries and accounting officers. Further, in April 2005, Government decided to place the management of 175 local authorities on performance contracts. Accordingly, five major municipalities completed performance contracts on 30<sup>th</sup> September 2005 on pilot basis; City Council of Nairobi, Mombasa Municipal Council, Eldoret Municipal Council, Kisumu Municipal Council and Nakuru Municipal Council.

Nellis (1989) defines performance contracts as a freely negotiated agreement between the government acting as the owner of a public enterprise and the enterprise itself in which the intentions, obligations and responsibilities of the two parties are freely negotiated and then clearly set out. It is an agreement between two parties that clearly specifies their mutual performance obligations, intentions and responsibilities.

Nellis (1989) presents the view that performance contracts whether in public or private sector, have the major objective of providing a performance management technique that largely draws on performance measurement and monitoring and gives a basis for performance appraisal and rewards. Nellis (1989) observes that the problems inhibiting performance in government agencies are excess controls and regulations, multiplicity of principals, frequent political interference, brain drain, bloated staff levels, and poor management.

According to Yahaya, (1999) a performance contract addresses economic, social or other tasks that an agency has to discharge for economic performance or for other desired results. It organizes and defines tasks so that management can perform them systematically, purposefully, and with reasonable probability of accomplishment. It also assists in developing points of view, concepts and approaches for determining what should be done and how to go about it. Performance contracts comprise determination of mutually agreed performance targets and review and evaluation of periodic and terminal performance (Marobela, 2008). Performance contracts should focus on two levels. For state corporations, the first level is between the government and the Board of Directors. Generally, Boards of Directors and management of public enterprises bind themselves to the achievement of mutually agreed targets, in return for operating autonomy and specified rewards. The second level is between the Board of Directors and the Chief Executive, since the Board is not in charge of routine management of the corporation. It assigns its responsibility assumed in the contract with the government through signing of a performance contract with the Chief Executive. For the civil service, the first level contract is signed between the President and the Ministers, Head of Public Service and the Permanent Secretaries



with the respective ministries counter-signing (Korir, 2006)

## **1.2 Statement of the Problem**

With the intensified challenge of providing quality service for her citizens, Kenya adopted Performance Contracts as a tool not only to improve service delivery but also to refocus the mindset of the civil service from looking within to focusing on customers and results (Ombui and Kabui, 2011). The push factor for introduction of performance contracts in Kenya is the assumption that institution of performance measurements, customer orientation and an increased focus towards incremental productivity and cost reduction can lead to improvements in service delivery. The public service and in particular the civil service plays an indispensable role in the effective delivery of public services that are key to the functioning of a state economy. When the delivery of services is constrained or becomes ineffective, it affects the quality of life of the people and nation's development process (AAPAM, 2005).

Implementation of the Process of Performance Contracting began in 2004 in state corporations. Performance contracting is supposed to enhance job satisfaction for the employees with the hope that their satisfaction would lead to improved job performance. The improved job performance should in turn lead to tangible and improved financial performance. The Economic recovery strategy for wealth and employment creation (2003-2007) outlines the Government's commitment to improve performance, corporate Governance and management in the public service through the introduction of Performance Contracts (Korir, 2006). The policy paper opens with a bold statement that "the public sector has become a bottleneck to the overall development of Kenya.

Performance contracts originated from the perceptions that the performance of the public sector has been consistently falling below the expectations of the public. The decline is associated with excessive controls, multiplicity of principles, frequent political interference, poor management and outright mismanagement (RBM guide,

2005). Performance contracts, however, reduce the level of job controls on the employees' part. The level of job control refers to how much influence a workplace offers over sequence, time frame and content of one's work tasks (Parker and Wall, 1998). Job control enables employees to experiment in the workplace and thereby allows employees to generate and enhance creative ideas at work (Frese, Teng and Wijnen, 1999). Furthermore, a high level of job control may make employees feel more responsible for developing creative ideas in order to solve problems or to improve work (Ohly Sonnentag and Pluntke, 2006). In addition, job control is assumed to raise employees' motivation to work on their tasks (Hackman and Oldham, 1976) and should accordingly foster creativity at work (Amabile, 1988). According to Saavedra and Kwun, (2000), the experience of job control in itself is viewed as a positive experience that energizes employees and facilitates work-related behavior and is associated with positive affect and positive affect in turn is positively related to creative problem solving (Isen, 1987). However with the implementation of performance contracting in the last ten years (since 2004), there is need to establish the factors influencing performance contracting on delivery of public projects using a case of conservation projects in Lamu County.

Previous studies conducted on performance contracting have concentrated on implementation (Yahaya, 1999) while one study has tackled the general impact of performance contracting in state corporations (Korir, 2006). However, no study has been done in Kenya so far to correlate performance contracting with effectiveness of revenue collection. A knowledge gap therefore exists regarding the effect of performance contracting on revenue collection among local authorities, that is, whether performance contracting increases the revenue collection. The purpose of this research is to find out the factors influencing performance contracting on delivery of public conservation projects in Lamu County.

### **1.3 Purpose of the Study**

The purpose of the study was to find out the factors influencing performance contracting on delivery of public projects using a case of conservation projects in Lamu County.

### **1.4 Research Objectives**

The study was specifically set out to address the following objectives

- i. To determine how involvement of employees in performance contract formulation influences service delivery in public projects
- ii. To examine how management procedures and practices influence performance contracts in the delivery of services in public projects
- iii. To determine how implementation of performance contract influence staff performance in delivery of public projects
- iv. To determine how performance contract contributes to the achievement of customer demands from public projects.

### **1.5 Research Questions**

The following research questions were used for the study

- i. How does involvement of employees in performance contract formulation influence service delivery in public projects?
- ii. How do management procedures and practices influence performance contracts in the delivery of services in public projects?
- iii. How does implementation of performance contract influence staff performance in delivery of public projects?
- iv. How does performance contract contribute to the achievement of customer demands from public projects

## 1.6 Research Hypothesis

The research hypotheses of this study were as follows:

- i. Employees' involvement in performance contract formulation

Null Hypothesis ( $H_0$ ): There is no relationship between employee involvement in performance contract formulation and service delivery in public projects

Alternative Hypothesis ( $H_1$ ): Employee involvement in performance contract formulation leads to success in service delivery in projects

- ii. Management procedures and practices' influence on performance contracts

Null Hypothesis ( $H_0$ ): Application of different management procedures and practices do not have an influence on performance contracts

Alternative Hypothesis ( $H_1$ ): Use of different Management procedures and practices have both direct and indirect influence on performance contracts

- iii. Implementation of performance contract and staff performance

Null Hypothesis ( $H_0$ ): Implementation of performance contract does not have an influence on staff performance in public conservation projects.

Alternative Hypothesis ( $H_1$ ): Implementation of performance contract influences staff performance in public conservation projects

- iv. Contribution of performance contract towards achievement of customer demands from public conservation projects.

Null Hypothesis ( $H_0$ ): Existence of performance contract in public conservation projects does not contribute towards achievement of customer demands

Alternative Hypothesis ( $H_1$ ): Performance contract contributes towards achievement of customer demands from public projects

### **1.7 Significance of the Study**

The study findings may provide pertinent information to the management in enhancing the use of performance contracts so as to enhance delivery of public projects

The study findings will be of interest and may enable the government know whether the reform initiative has positively impacted on delivery of public projects.

The public service reform secretariat and performance contract steering committee may find the findings useful in deployment the state corporations and government agencies yet to adopt the performance contracting.

The study findings will also lay a foundation for further research and understanding of the relationship between Performance Contracting and revenue collection improvement and service delivery in public institutions as a basis of policy decisions. Academicians in the area of strategic management and performance will also gain from this study as reference source.

### **1.8 Basic Assumptions of the Study**

- i) The targeted respondents were expected to participate in giving the desired information for the research study.
- ii) The study also assumed that the researcher would get all the information that is required from the relevant sources.
- iii) The study further assumed that Lamu County had put in place performance contracting on delivery of public projects.

### **1.9 Limitations of the Study**

First was the access to the top managers that were needed to respond to this study. These target respondents tended to have a busy schedule that could not allow them to

be available to answer the questions at hand. This was because the study targeted key decision makers in the concerned firms.

The study faced a challenge particularly with those questions that parastatals in Lamu county found touching on their confidentiality or could expose their success strategies or lack of strategies. To overcome this limitation, the researcher confirmed the confidentiality of the information provided.

### **1.10 Delimitation of the Study**

The researcher booked appointments in advance with the senior level managers to ensure that they are available.

The researcher carried an introduction letter from the University confirming that the data requested was only to be used for academic purposes and not for any other reason.

The researchers used a drop and pick later method during data collection where he/she will drop the questionnaire and pick it on a later date once they have been filled.

### **1.11 Definitions of Significant Terms Used in the Study**

**Accountability**-is having personal responsibility for individual actions, results and being able to exercise prudent use of public resources.

**Communication**-is passing of information from one person to the other in the right context and content

**Performance Contracting** -is a branch of management science referred to as Management Control Systems and is a contractual agreement to execute a service according to agreed-upon terms, within an established time period, and with a stipulated use of resources and performance standards.

**Performance Appraisal-** is evaluating an employee's past performance relative to his/her performance standards or targets as per the contract.

**Performance Management-** is a more recent development which adopts a future-oriented strategic focus and is applied to all employees in a workforce in order to maximize their current performance and future potential

**Performance Measurement-**is a set of metrics used to quantify both the efficiency and effectiveness of actions.

**Policy-** refers to the process of making important organizational decisions, including the identification of different alternatives such as programs or spending priorities and choosing among them on the basis of the impact they will have. A policy is also a principle or rule meant to guide decisions in order to achieve rational outcome

**Public Projects-** A public project is any project that is funded by government, and is meant to be owned or operated by that government

**Reward system-**This is a motivational strategy that appreciates good performance. It includes payment for services rendered, promotions, profit and gain sharing, training, career development and two way communication. It is an orientation towards better performance in terms of quality, cost, competency and profitability

**Quality-** means services or products fit the purpose for which they were intended. It implies that services from public projects should meet, exceed and sustain customer needs

**Staff output-**These are goods, services or processes to be delivered by the project staff given some inputs and assumptions by the end of the project implementation period

**Time schedule-**is an important constraint that requires attention since it influences the project cost, budget and quality. It is usually established at the baseline

### **1.12 Organization of the Study**

This chapter introduces background to the study on the factors influencing performance contracting on delivery of public projects using a case of conservation projects in Lamu County. It presents the statement of the problem, research objectives, and research questions, significance of the study, scope as well as limitations and assumptions to the study. Chapter two looks at literature from other countries in Africa and other parts of the world to understand performance contracting on delivery of public projects. The chapter also gives a detailed analysis of the theoretical framework and conceptual model that have guided the study. Chapter three gives details of the procedures used in conducting the research. Chapter four provides data analysis, presentation and interpretation while chapter five outlines summary of findings, discussions, conclusions and recommendations.



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter reviews studies related to what has been researched or written by others on the subject of interest which is performance contracting and project delivery. It covered involvement of employees in formulation of performance contracts; management procedures and practices and how they influence performance contracts; implementation of performance contracts influence on staff performance and contribution of performance contracts to the achievement of customer demands from public projects

#### **2.2 Employees' Involvement in Formulation of Performance Contracts**

According to Ongøeta and Kimnyak (2013), in most of the organizations, not all employees are aware of the existence of performance contracts or have targets in the performance contracts. Letangule and Letting (2012) pointed out that the awareness on performance contracting was high though the performance output did not appear to correspond with the increasing participatory requirement from employees. The study further revealed that there is widespread understanding of the performance contracting concept. Williamson (2008) argues that the members of staff are not sufficiently involved in drawing up contracts which affects the implementation of the performance contracts.

Omboi and Kabui (2011) note that employees' participation in setting targets, utilization of resources, training sessions and increase in revenue are some of the measure that can be used to determine the level of employees involvement in performance contract. Omboi and Kabui (2011) noted that majority of employees are able to deliver service targeted as a result of high involvement in performance contracts from the initial stages and that managers did understand performance contract. However, Omboi and Kabui (2011) pointed out that there is minimum level of how to operationalize the new methods. The employees are not involved in setting performance contract targets which is as a result of low level of education.

OECD (1999) identifies training as a key determinant in performance contract related activities.

On the side of training, critics argue that changes in business processes, tools, technology, practices and systems often involve learning new capabilities. Research in training effectiveness consistently indicates that regardless of the quality of training content and facilitation, on average only 10 to 20 percent of training transfers to the job so that performance is changed and enhanced (Halachmi, 2005). However, with a proper training programme in place, productivity will be enhanced. This is because after evaluation the supervisors get to know the areas of where their staff needs training, where the gap is. A trained employee other than acquiring knowledge he becomes confident in discharging his duties. Therefore training can also be a motivator.

### **2.3. Influence of Management Procedures and Practices on Performance**

#### **Contracts**

A performance contract constitutes a range of management instruments used to define responsibilities and expectations between parties to achieve mutually agreed results. It is a useful tool for articulating clearer definitions of objectives and supporting innovative management, monitoring and control methods and at the same time imparting managerial and operational autonomy to public service managers. It is therefore a management tool for ensuring accountability for results by public officials, because it measures the extent to which they achieve targeted results (Greer et al., 1999). Performance goals are often perceived as being imposed from the management rather than from a collective thought process. For performance contract to effectively have impact on employee performance, managers must be willing to involve members of staff in development of yearly performance objectives. Omboi and Kabui (2011) noted that in order to be effective in conducting business or rendering service, there is need to implement management procedures and practices that will yield the desired results. Under performance contracts, targets are set and although the areas of concern are the outcomes rather than the processes, the processes do determine the outcomes.

Performance contracts and management form part of the integral force that is concerned with how procedures will generate desired results through human resource. OECD (1999) found that results based management is a procedure that is used by institutions to achieve specified targets by focusing on inputs, processes and outcomes, in a process that is used to mobilize entire staff in an organization in achieving agreed targets. Performance contract initiatives have positively injected new management procedures and practices influencing timeliness in service delivery. Malathy (1997) argues that under performance contracts, targets are set and although the areas of concern are the outcomes rather than the processes, processes do determine the outcomes. A major tool that is identified as a success factor in performance contracting and forms basis of management procedures and practices is strategic plan. Management has to have a strategic plan which enables an organization to be better focused on its core operations. Organizations need to have strategic plan where objectives and action plans are clearly set out and reviews done regularly. The purpose of management procedures and practices is to improve control of the use of organizational resources, monitor performance and safeguard tangible assets.

## **2.4 Influence of Implementation of Performance Contracts on Staff**

### **Performance**

Williams (1998), points out that performance is multi-faceted hence it is measured in terms of output and outcome, profit, internal processes and procedures, organizational structures, employee attitudes and organizational responsiveness to the environment. Performance Contracts have been viewed as a management process that is supposed to improve staff performance and to categorically meet and exceed customer expectations. Smith (2002) noted that the objective of performance contracting is the control and enhancement of employees' performance and thus the performance of the whole institution. The use of Performance Contracts has been acclaimed as an effective and promising means of improving the performance of public enterprises as well as government departments. Essentially, a Performance Contract is an agreement between a government and a public agency which

establishes general goals for the agency, sets targets for measuring performance and provides incentives for achieving these targets (Hunter and Gates, 1998).

Performance contracts also put pressure on the entire servicesø network to work towards improving performance (Lockyer and Gordon, 2005). As implemented in many situations, performance contracting first of all involves a highly structured phase of evaluating results (Mahadevan, 2010). Formal in-depth audits of each department on a regular basis to pinpoint strengths and weaknesses in each area, the constant refinement of practical action plans tying resource use to priority aims, and, lastly, the setting of explicit quantitative and qualitative targets make improving performance an ongoing, consistent, realistic and motivating process.

Performance contracts reduce the level of job controls on the employeesø part. The level of job control refers to how much influence a workplace offers over sequence, time frame and content of oneø work tasks (Parker and Wall, 1998). Job control enables employees to experiment in the workplace and thereby allows employees to generate and enhance creative ideas at work (Frese, Teng and Wijnen, 1999). Furthermore, a high level of job control may make employees feel more responsible for developing creative ideas in order to solve problems or to improve work (Ohly Sonnentag and Pluntke, 2006). In addition, job control is assumed to raise employeesø motivation to work on their tasks (Hackman and Oldham, 1976) and should accordingly foster creativity at work (Amabile, 1988). According to, Saavedra and Kwun, (2000), the experience of job control in itself is viewed as a positive experience that energizes employees and facilitates work-related behaviour and is associated with positive affect and positive affect in turn is positively related to creative problem solving (Isen et al., 1987).

A study by Candido and Santos (2008) indicated that performance contracts are a powerful tool that motivates managers and employees to live up to the contract requirements due to its nature as a commitment with another party. Performance contracts leads to the identification of roles played by each member of staff providing the employees a distinct opportunity in achievement of organizational objectives which intern provides employees with the motivation to perform because

they own the objectives of the organization (Obongø, 2009). Staff performance under performance contract has been viewed as an important instrument for the implementation of performance management used to set and improve targets between parties. GOK (2004) on performance contracts in the public sector, has encouraged use of appropriate technology and value addition advocating for change.

## **2.5 Contribution of Performance Contracts to the Achievement of Customer Demands**

As noted by Korir (2005), there is a direct relationship between performance contracting and improved service delivery and the bottom line that is profitability. Nanjala (2012) as well noted that performance contracting play a critical role in enhancing performance of organizations in the areas of customer satisfaction, employee satisfaction and revenue generation. Martin (2005) noted that implementation of performance based contracting lead to increased accountability for service delivery and deliverables, and increased partnership.

Performance contracts enhance service delivery as well as customer and employees satisfaction in various ways. for example, the aim of introducing performance contracts in Kenya as noted by (Letangule and Letting, 2012), were to improve service delivery to the public by ensuring the topólevel managers are accountable for results, reverse the decline in efficiency and ensure that resources are focused on attainment of key national policy priorities of the government, institutionalize performance oriented culture in the public service through introduction of an objective performance appraisal system, measure and evaluate performance, link reward to measurable performance, facilitate the attainment of desired results, instill accountability for results at the highest level of the government, ensure that the culture of accountability pervades all levels of the government machinery and strengthen and clarify the obligation required of the government and its employees in order to achieve agreed target (GOK, 2001).

In relation to studies that consider performance contracting and service quality, three themes emerge: the variations and problems in measurement of quality, the lack of

information about the reasons for perceived changes in quality, and the dearth of studies on quality when compared to economic efficiency (Hodge, 1998). In their review of ten studies, Domberger and Rimmer (1994) noted that many of the studies used incomplete and narrow measures of service quality, and that the review provided consensus that performance contracting enhance quality. The studies illustrate marked inconsistencies in approaches to measuring quality. Rimmer (1994) notes that: There are no generally accepted measures of quality. Frequently used measures include surveys of users, changes in inputs, the range or number of outputs and performance indicators, such as a systematic assessment of user complaints. Similarly, the Industry Commission of Australia report (1996) states: Information has been obtained from one or more of three sources which include the direct response of service consumers (the number of customer complaints as a proxy for service quality), independent observation and assessment (performance indicators), and information from contract managers.

## **2.6 Theoretical Framework**

This section provides an explanation to theories behind performance contracting. It provides a review on literature based on Goal setting theory, Happiness and success theory and the Balanced score card.

### **2.6.1 Goal-Setting Theory**

From the Performance Contract literature, agency theory has been the underlying theory adopted by many authors to explaining the application of Performance Contract and its evaluation in general (Charantimath, 2006). Moreover, many of the studies highlight the importance of improving performance by the standardization and institutionalization of goal formulation and performance target setting and evaluation. However, there is minimal theoretical explanation and corroboration of these recommendations, hence the exploration of the goal setting theory.

The goal setting theory postulates that there is a relationship between goals and performance and that relationship is explained by what the proponents call Mechanisms or Mediators, and Moderators (Latham and Locke, 2007). Specifically,

the theory is concerned with the effectiveness of specific, difficult goals, the relationship of goals to affect; the mediators of goal effects, the relation of goals to self-efficacy, the moderators of goal effects and the generality of goal effects across people, tasks, jointly with others (Locke and Latham, 2007).

The basis of this is the inductive conclusion that individuals with challenging but specific and explicit goals tend to achieve better results than those with equivocal goals, since the former direct attention, effort and action, and even search for requisite task knowledge, skills and experiences to maximize performance (Latham & Locke, 2007). They explain that quality goals therefore direct attention and effort; encourage endurance and persistence as well as make the identification of innovative ways of achieving goals crucial. This means that a goal must not only be specific, but must also be challenging enough to encourage persistence and drive optimum effort, since easy or vague goals generally will not lead to higher levels of effort.

### **2.6.2 Happiness and Success Theory**

According to the happiness and success theory, which attempted to relate success of work and happiness, people feel happy when they feel to be achieving their set goals, and especially so when it is a hard-won goal (Malathy, 1997). Positive anticipation and attendant happiness happens when we predict that we will achieve our goals and feel confident about those predictions, perhaps because they have been right recently. According to this view, happiness is not a permanent state, and no matter what we get, we will always swing between happiness and sadness (Hilmer, 1993).

People feel a sense of their own significance where they have made positive impact on other people they care about. The sense of significance grows with the size of the impact and the number of people affected. Thus if they save the world they will feel pretty significant (Korir, 2005). People's sense of legacy has to do with what they leave behind themselves. Most of all, if they can establish values that help others find future success, and then they will feel a strong sense of success. The happiness and success theory suggests why it is important to involve employees in setting the performance contract goals so that they can derive happiness from their successes

and hope to leave a legacy of key accomplishments (Industry Commission of Australia, 1996)

### **2.6.3 Balanced Scorecard Theory**

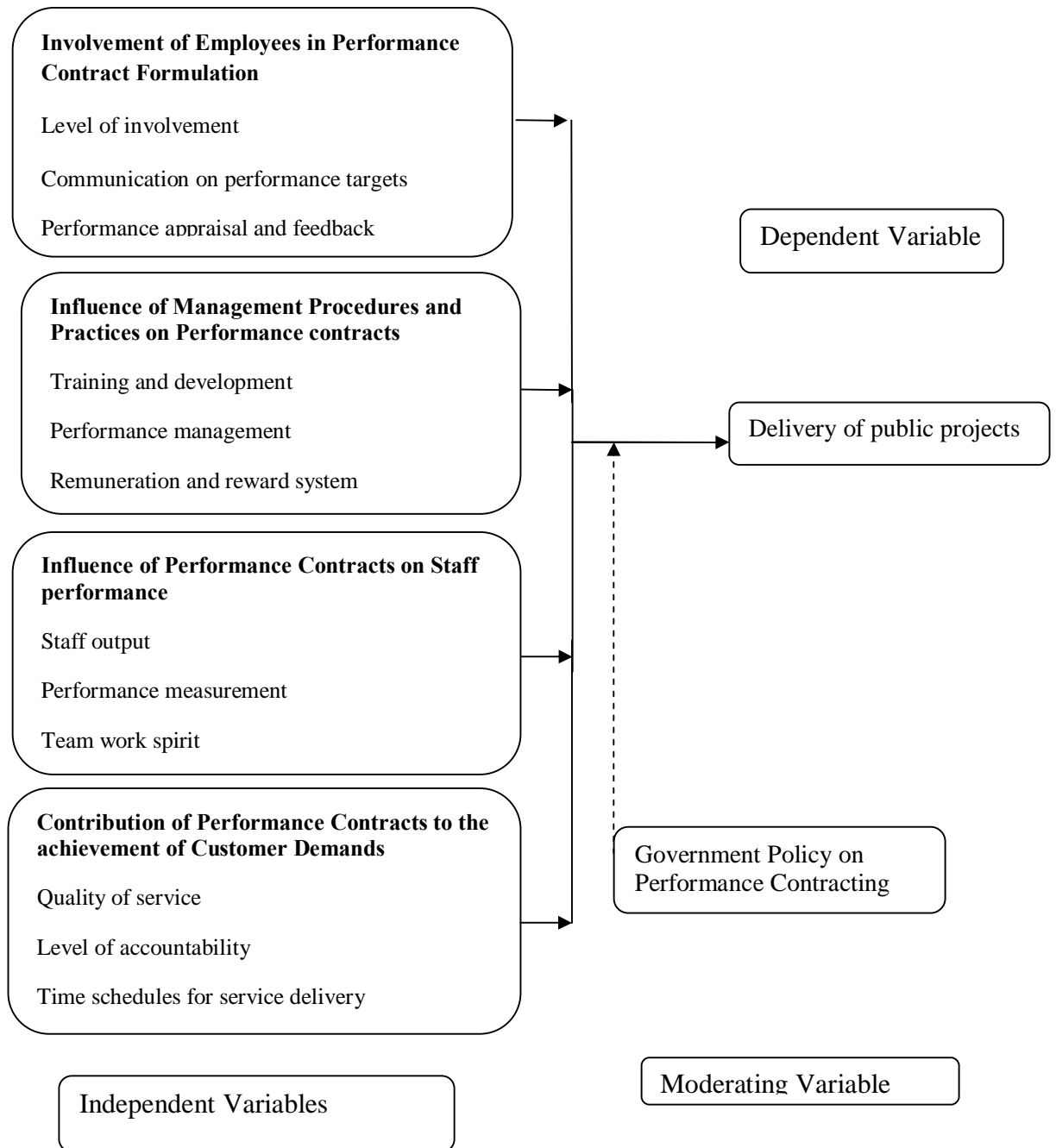
According to Kiboi (2006), Balanced Scorecard is the most successful driver of culture change organization-wide. BSC responds to the need for an integrated management system capable of incorporating both traditional quantitative and more abstract qualitative performance measures (Kaplan and Norton, 1996). The concept of the balanced scorecard (BSC) was developed by Kaplan and Norton in 1992. The balanced scorecard is a management control system that enables organizations to clarify their strategies, translate them into action, and provide quantitative feedback as to whether the strategy is creating value, leveraging core competences satisfying the company's customers and generating a financial reward to its shareholders (Kaplan, 2001). BSC is a unique strategic management system in that; it is a communication tool for the organization, aligns the organization vision with operations, it's a journey of culture, it is strategic and operation- requires thinking, a framework for change initiative, leads to increased accountability and, balances customer, efficiency, capacity building and financial views of performance (Halachmi, 2005). It does this through a composite measure of four dimensions or aspects of an organization's performance: financial, customer, internal business process, and learning and growth performance (Kraatz, 2001). At any point in time these aspects characterize the current status and future potential of any given organization. Through the years, the balanced scorecard has evolved from the original performance measurement tool to become a possible instrument for implementing strategies and a framework for determining the alignment of an organization's human, information and organization capital with its strategy (Kaplan, 2001). This shift has prompted companies to view the balanced scorecard as a strategic communication and management system

BSC is expected to foster a desired balance in the following respects: short- and long-term objectives; between preferred (lag performance measures) and the



performance drivers of these outcomes (lead performance measures); and between quantitative-objective measures and qualitative-subjective measures. Among the principles of good corporate governance is the assessment of corporate performance achieved through these four perspectives (aspects). PCs are modeled on these four perspectives. According to Derek, Laura and Stephen (2005) Performance Management systems incorporate goal setting, appraisal activity, communication, training and development, team work spirit and reward for performance. These elements are further outlined as independent variables that determine the success or failure in implementation of PCs in the conceptual framework.

## 2.7 Conceptual Framework



**Figure 2.1: Performance Contracting Strategy**

**Source: (Author, 2014)**

## **2.8 Explanation on relationship of variables on conceptual framework**

This section provides a detailed elaboration of indicators of independent variables, dependent variable as well as the moderating variable in the conceptual framework.

### **2.8.1 Level of Involvement**

There is a syndrome in top management that strategic planning is supposed to be formulated by them alone, and for them it is a sign of power and an expression of the magnitude of the difference between them and their subordinates, (Hubbard, 2000). Effective performance management requires empowering workers to their performance. The traditional management approach of supervisors giving orders and workers following them usually does not lead to maximum performance levels. According to Thompson and Strickland (2005), strategic management is an ongoing process, nothing is final and all prior actions and decisions are subject to modification in the future. The newer empowerment approach requires supervision to take on the role of coach rather than director and controller (Thompson and Strickland, 2005). The most effective performance results from being specific about desired outcomes but not giving too many details about how the worker should strive to reach these goals (Hubbard, 2000).

### **2.8.2 Performance Appraisal and Feedback**

As discussed earlier, if you set goals, you need to measure performance against those goals to determine to what extent they were met. Performance Appraisal (herein after PA) is evaluating an employee's past performance relative to his/her performance standards or targets as per the contract. According to Eisentat (1993), PA involves setting work standards, assessing the employee's actual performance relative to those standards and providing feedback to the employee with the aim of motivating him/her to eliminate performance deficiencies or to continue performing above par. PA assumes the employee knew what the performance standards were and received the feedback required to remove any performance deficiencies (Candido and Santos, 2008). The aim should always be to improve the employee's, and, thereby the

company's performance. PA is a tool within PC helps to translate the employer's strategic goals into specific employee's goals. PC process starts the year with performance planning. An organization wide plan for the next year is established based on the firm's strategic plan. From this specific company goals are set. Next, departmental heads take these company goals and, with their superiors, jointly set goals for their departments. Departmental heads discuss the department's goals with subordinates at departmental meeting. They ask employees to set their own preliminary individual goals. Departmental heads and their subordinates set short term individual targets, the beginning of the PA process (Dressler, 2008). Performance analysis assigns a performance requirement to each task, which involves determining how a service can be measured and what performance standards and quality levels apply (Frederickson, Pfeiffer and Pratt, 1999). The performance standard establishes the performance level required by the government. Correspondingly, the acceptable quality level (AQL) establishes a maximum allowable error rate or variation from the standard.

### **2.8.3 Training and Development**

On the side of training, critics argue that changes in business processes, tools, technology, practices and systems often involve learning new capabilities. According to Hickson and Wilson, (2003), Training should start from creating employee awareness on contract statement of work to be implemented which is the foundation of performance based services. Research in training effectiveness consistently indicates that regardless of the quality of training content and facilitation, on average only 10 to 20 percent of training transfers to the job so that performance is changed and enhanced (Gitonga, 2010). However, with a proper training programme in place, productivity will be enhanced. This is because after evaluation the supervisors get to know the areas of where their staff needs training, where the gap is. A trained employee other than acquiring knowledge he becomes confident in discharging his duties (Christopher, 2004). Tsai, (2001) noted that after conducting training needs assessment, training can be accomplished by internal resources, external sources or

modification of existing training to include service delivery in a performance based approach.

#### **2.8.4 Communication of Performance Targets**

Communication is passing of information from one person to the other in the right context and content (Lewis, 2003). What is communicated and how it is communicated determine whether performance improves or declines (Saleem and Bogonko, 1997). Communicating the organization's higher-level goals including its targets, vision, mission, values and strategies throughout the project and then translating them into doable departmental goals will enable employees to work towards a common corporate goal (London, Mone and Scote, 2004). Managers should keep everyone informed of the issues taking place in the organization. Even when the performance contract is being formulated all members of the organization, through their supervisors, should have input into the strategic planning process. There should also be a flexible structure in the organization that encourages both top down and bottom up exchange of ideas thus ensuring that organization members' inputs have been taken on board (Noble, 1999). After the strategic plan document has been completed it should be communicated to organization members. Management should hold workshops with employees; issues pertaining to the performance contract, such as vision, mission statements, values, performance target should be explained in detail

#### **2.8.5 Performance Management**

The concept of performance management is a more recent development which adopts a future-oriented strategic focus and is applied to all employees in a workforce in order to maximize their current performance and future potential (Armstrong and Baron, 2005). Performance Management has developed over the past two decades as a strategic, integrated process which incorporates goal-setting, performance appraisal and development into a unified and coherent framework with the specific aim of aligning individual performance goals with the organization's

wider objectives (Dessler, 2005; Williams, 2002). Consequently, it is concerned with: how people work, how they are managed and developed to improve their performance, and ultimately how to maximize their contribution to the organization. The underlying conceptual foundations for performance management lie in motivation theory and, in particular, goal-setting theory and expectancy theory. Goal-setting theory (Locke and Latham, 1984) suggests that not only does the assignment of specific goals result in enhanced performance but also leads to both increased motivation and increase in performance. Expectancy theory hypothesizes that individuals change their behaviour according to their anticipated satisfaction in achieving certain goals (Vroom, 1964). Mitchell (2000) notes that these theories have important implications for the design of performance management processes.

#### **2.8.6 Remuneration and Reward System**

Performance that is rewarded is likely to be repeated: Money is an important reward to most people, so individuals tend to improve their work Performance when a strong performance pay Linkage exists (Christopher, 2004). According to the expectancy theory, people tend to do those things that are rewarded (Vroom, 1964). Individuals are goal-oriented & functional incentives can shape an individual's goals over time. If individuals are not rewarded in proportion to their efforts, high performers may leave the firm or reduce their performance level to make it consistent with the payment they are receiving (Bonner, Sprinkle and Young, 2003).

On the other hand, it is argued that tying pay to goal may promote single mindedness ó narrow focus. Burgess and Ratto, (2003) note that linking financial incentives to the achievement of goals may lead to a narrow focus and the avoidance of important tasks, either because goals are difficult to set for these tasks or because their accomplishment is difficult to measure at the individual level. Secondly many employees do not believe that pay & performance are linked. Thirdly individual pay plans may work against achieving, Individuals rewarded for meeting production goals often sacrifice attention to product quality (Dixit, 2002).

Cindy (2002) argued that an employee's performance is more a function of things like training, communication, tools and supervision than of his own motivation. Performance Management's emphasis on the integrated nature of goal setting, appraisal and development reflects this assumption (Dressler, 2008).

The traditional performance appraisals did not have prior targets set rendering them useless, tense and counterproductive. PC recognizes that in today's globally competitive environment, every employee's competencies and efforts must focus on helping the company achieve its strategic goals (Cindy, 2002). The basic idea is that management and each worker and work team should continuously monitor performance relative to goals, and continuously improve results. Continuous improvement is a management philosophy. It means continuously setting and meeting ever-higher quality, cost, delivery and availability goals. Central to this philosophy is the idea that each employee and team must continuously improve performance, from one period to the next (Dixit, 2002). In other cases, management of organizational culture and motivation may be the key to improved performance. Public sector managers must ensure that the incentive systems in place are modernized by making them more attractive so as to induce employees to perform optimally. Gitonga, (2010), notes that managers must exercise procedural and distributive justice in the administration of the rewards. They should also ensure that decisions are decentralized to allow full employee participation in the decision making processes. Lastly public sector managers must see to it that organization resources acquisition and development are available and accessed by all their employees.

### **2.8.7 Performance Measurement**

According to de Waal, (2006) and Kaplan, (2001), performance measurement system is a set of metrics used to quantify both the efficiency and effectiveness of actions. Performance measurement serves the purpose of monitoring performance, identifying the areas that need attention, enhancing motivation, improving communication and strengthening responsibility and accountability (de Waal, 2006; Kaplan, 2001). The view was strongly supported by Schmitz et al in Busi, & Bititci,

(2006) as well. Operations need some kind of performance measurement as a prerequisite for improvement. It requires comparison of the current level of achievement of performance with some kind of standard. Performance measurements are used to evaluate, control and improve operations process in order to ensure that organizations achieve their goals and objectives. Performance measurements are also used to compare the performance of different organizations, plants, departments, teams and individuals and to assess employees (Kaplan, 2001). The general argument for performance measurement is that to improve a process, one need to know how well it is performing currently. Performance measurement provides information about how well a process is being conducted and how good the results from it are (Verhoest, 2004). Verhoest (2004) states that what gets measured gets done. That is, areas emphasized through monitoring and measurement also receive attention and resources. In recent years, the development has been towards operational parameters for performance measurement like quality, cost, time, reliability and flexibility as opposed to financial.

#### **2.8.8 Team Work spirit**

Agencies should use an interdisciplinary team approach in developing the work breakdown structures, and include, at a minimum, the contracting officer and a technical representative (Summers and Hyman, 2005). The program manager or the agency head should establish the team. Additional team members may include an attorney, a writing advisor, and a representative from the customer/user staff. Whenever possible, at least one team member should be experienced in contracting techniques. Once established, the team should designate a team leader to serve as a facilitator. This team approach will result in a better final product, and limit the potential for disagreements among agency officials during contract performance (Summers and Hyman, 2005). According to Gitonga (2010) a project team is the most important resource you have available and their enthusiastic contribution can make or break a project. The project manager should look after them and make sure the team operates as a unit and not as a collection of individuals.



### **2.8.9 Quality of service to customers**

Quality means services or products fit the purpose for which they were intended. Services delivered by projects should meet the requirements of the customer at the design stage (Mahadevan, 2010). In project management, quality should not be compromised in service delivery and time taken by the products or services to reach the customers should always be kept at the minimum and displayed in service charter of the agency (Pfeiffer, 2002). According to Charantimath (2006), unsatisfactory service, customer complaints, delay in delivery of agreed upon targets can be used to determine organizations. It is therefore necessary to involve the customers regularly, not just at the beginning (for requirements) but also at the end (for acceptance). This customer involvement mitigates one of the most consistent problems on projects since in most cases what they are told to accept at the end of the project differs from what they were told at the beginning (Charantimath, 2006). In addition to uncovering misunderstandings early in the project, this interaction helps the customer to form a better vision of the emerging product and services. The bottom line is that delivering a product that meets the original (obsolete) needs is wasteful and counter-productive (Charantimath, 2006).

### **2.8.10 Level of Accountability among public officers**

Employees should assume personal responsibility for their work and accountability of its outcome (Kraatz, 2001). An employee who is responsible for his or her actions and accountable for the results see to it that both the actions and results are in line with public goals and objectives (Marobela, 2008). The absence of personal responsibility and accountability on individual basis results in inappropriate actions and poor service delivery to the public. Tilaye (2007) asserts that when employees are responsible for their actions and accountable for their results, their performance increases.

### **2.8.11 Staff outputs**

These are goods, services or processes to be delivered by the project staff given some inputs and assumptions by the end of the project implementation period (Gitonga, 2010). The project team must put in place necessary conditions to achieve the immediate project objectives. Hodge, (1998) argues that in most public agencies, it is a common trend that most workers are paid not for output produced, nor even for labour input provided but simply for time spent on the job. Governments and public agencies are inherently interested in undertaking projects that address acute gaps such as infrastructural, natural resource based, service, policy and institutional strengthening and as such the project team should strategically link their outputs towards solving these public problems (Mitchell, 2000).

### **2.8.12 Managing Project Time (schedule)**

Time is an important constraint that requires attention since it influences the project cost, budget and quality (Maylor, 2006). During project planning, an agreed-upon baseline is established for the project schedule. Chandra, (2006) notes that baseline is used as a starting point against which performance on the project will be measured. It is one of the many tools the project manager can use during project execution and control to determine if customers are receiving timely services or products from the project deliverables. It is recommended that the project manager updates the project schedule on a regular basis (Lockyer and Gordon, 2005). Frequent updates to the schedule not only save time in the long run, they also allow the project manager to quickly spot potential problem areas and offer solution. Small slippages on individual task may combine to create significant issues with other dependent tasks (Chandra, 2006).

### **2.8.13 Government Policy on Performance Contracting**

A policy is a principle or rule meant to guide decisions in order to achieve rational outcome(s) (Stone, 2008; Smith, 2002). The term policy may also refer to the process of making important organizational decisions, including the identification of different alternatives such as programs or spending priorities and choosing among

them on the basis of the impact they will have (Smith, 2002). Governments globally, are the policy making bodies while public organizations are either government policy implementing agencies or service delivery bodies. For that matter, the autonomy or decision making power of public organizations is related to issues of policy (Christensen, 2001). Autonomy as a decision making power is also influenced to some extent by legal position, financial dependence and governance structure (Christensen, 2001; Verhoest, 2004). The actions of public sector organizations are also often strongly regulated by other governmental actors, such as central government departments, funding, audit offices and public standards commissions (Christensen, 2001).

## **2.9 Gaps in Literature Reviewed**

Letangule and Letting (2012) pointed out that the awareness on performance contracting was high though the performance output did not appear to correspond with the increasing knowledge. The study further revealed that there is widespread understanding of the performance contracting concept. Omboi and Kabui (2011) noted that in order to be effective in conducting business or rendering service, there is need to implement management procedures and practices that will yield the desired results. Under performance contracts, targets are set and although the areas of concern are the outcomes rather than the processes, the processes do determine the outcomes. Malathy (1997) argues that under performance contracts, targets are set and although the areas of concern are the outcomes rather than the processes, processes do determine the outcomes. A major tool that is identified as a success factor in performance contracting and forms basis of management procedures and practices is strategic plan.

Smith (2007) noted that the objective of performance contracting is the control and enhancement of employees' performance and thus the performance of the whole institution. The use of Performance Contracts has been acclaimed as an effective and promising means of improving the performance of public enterprises as well as government departments. Martin (2005) noted that implementation of performance based contracting lead to increased accountability for service delivery and

deliverables, and increased partnership. Domberger and Rimmer (1994) noted that many of the studies used incomplete and narrow measures of service quality, and that the review provided consensus that performance contracting enhance quality. The studies illustrate marked inconsistencies in approaches to measuring quality. The existing studies have been either done in other countries or within Kenya but targeting a parastatal at a time. This study fills in the research gap in that it provides performance contracting influence among public projects within Lamu.

## **2.10 Summary of Literature Review**

Having illustrated the factors influencing performance contracting on delivery of public projects, this chapter is structured in theoretical perspective and conceptualization. From the Performance Contract literature, agency theory has been the underlying theory adopted by many authors to explaining the application of Performance Contract and its evaluation in general. The goal setting theory postulates that there is a relationship between goals and performance and that relationship is explained by what the proponents call Mechanisms or Mediators, and Moderators (Latham & Locke, 2007). The basis of this is the inductive conclusion that individuals with challenging but specific and explicit goals tend to achieve better results than those with equivocal goals, since the former direct attention, effort and action, and even search for requisite task knowledge, skills and experiences to maximize performance (Latham & Locke, 2007).

According to the happiness and success theory, which attempted to relate success of work and happiness, people feel happy when they feel to be achieving their set goals, and especially so when it is a hard-won goal. People feel a sense of their own significance where they have made positive impact on other people they care about. The sense of significance grows with the size of the impact and the number of people affected.

Omboi and Kabui (2011) note that employees' participation in setting targets, utilization of resources, training sessions and increase in revenue are some of the measure that can be used to determine the level of employees understanding about

performance contract. OECD (1999) found that results based management is a procedure that is used by institutions to achieve specified targets by focusing on inputs, processes and outcomes, in a process that is used to mobilize entire staff in an organization in achieving agreed targets. Performance contracts also put pressure on the entire services network to work towards improving performance (Williamson, 2008). As noted by Korir (2004), there is a direct relationship between performance contracting and improved service delivery and the bottom line that is profitability. Nanjala (2012) as well noted that performance contracting play a critical role in enhancing performance of organizations in the areas of customer satisfaction, employee satisfaction and revenue generation.

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Introduction

This chapter describes the methods that were used in collection of data pertinent to answering the research questions. The chapter comprises the following sub-topics; research design, target population, research instruments, the sample and sampling procedures, data collection procedures and data analysis procedures.

#### 3.2 Research Design

The study adopted a descriptive research design. According to Mugenda and Mugenda (2003), descriptive research design is a systematic, empirical inquiry into which the researcher does not have a direct control of independent variable as their manifestation has already occurred or because they inherently cannot be manipulated. Descriptive research design is concerned with finding out about the how, who, when and where of a phenomenon so as to build a profile (Mugenda and Mugenda, 2003). In this study, descriptive research design was chosen because of its ability to create a profile about a phenomenon.

Descriptive research involves field survey where the researcher goes to the population of interest to ask certain issues about the problem under the study. Kombo and Tromp (2006) describes descriptive research design as a systematic, empirical inquiring into which the researcher does not have a direct control of independent variable as their manifestation has already occurred or because the inherently cannot be manipulated. Inferences about relationships between variables are made from concomitant variables.

#### 3.3 Target Population

A population is the entire group of individuals, events or objects having a common observable characteristic (Mugenda and Mugenda, 2003). According to Ngechu

(2004), a population is a well defined or set of people, services, elements, events, group of things or households that are being investigated. The study targeted employees in state corporations in Lamu County that have implemented or are implementing conservation projects as listed in the table 3.1 below:

**Table 3.1: Population of the Study**

<b>Parastatal</b>	<b>No. of Departments</b>	<b>Employees on PC</b>
Coastal Development Authority	3	7
Kenya Airports Authority	4	14
Kenya Coconut Development Authority	3	4
Kenya Commercial Bank	4	9
Kenya Electricity Generating Company	4	5
Kenya Forest Service	3	10
Kenya Maritime Authority	3	4
Kenya Marine and Fisheries Research Institute	3	7
Kenya Ports Authority	5	14
Kenya Wildlife Services	4	21
National Environment Management Authority	3	3
National Drought Management Authority	3	6
Water Resources Management Authority	3	5
<b>Total Target Population</b>	<b>40</b>	<b>109</b>

Source: (GOK, 2014)

### **3.4 Sample Size and Sampling Procedure**

It is often impossible, impractical or extremely expensive to collect data from all the potential units of analysis covered by the research problem. Therefore, researchers

normally resort to drawing inferences on all the units based on a relatively small number of units when the subsets of the unit accurately represent the relevant attributes of the whole set (Park, 1992).

#### **3.4.1 Sample size**

A sample is a group in a research study on which information is obtained (Kombo and Tromp, 2006). For the purpose of this research, two heads of departments and three employees from every population of study under performance contract for the year 2013/2014 were selected to participate in the study. This constituted 26 heads of departments and 39 employees under performance contracting thereby making the sample size to be 65.

#### **3.4.2 Sampling procedure**

The study used stratified random sampling method to select a sample of management and employees. In stratified random sampling, the population is divided into subpopulations called strata whereby each is characterized by internal homogeneity which differs from any other strata (Hunt and Tyrrel, 2001). Stratified random sampling is designed to ensure that sub-groups or strata are fairly represented (Park, 1992).

Stratified random sampling technique was used since population of interest was not homogeneous and could be subdivided into groups or strata to obtain a representative sample. Before sampling, the population was divided into three strata according to the levels of management which include senior level, middle level and the low level management then random sampling was used within each category.

#### **3.5 Data Collection Instrument**

The study collected both primary and secondary data for the purpose of investigating the factors influencing performance contracting on service delivery of public projects. Primary data was collected using a questionnaire while secondary data was obtained from reports and publication.



This study utilized a questionnaire as the data collection instrument. The questionnaire designed in this study comprised of two sections. The first part was designed to determine the demographic characteristics of the respondent, while the second part consisted of questions where the four variables were focused. The questionnaire was designed in line with the objectives of the study. To enhance quality of data to be obtained, Likert type questions were included.

The structured questions were used in an effort to conserve time and money as well as to facilitate in easier analysis as they are in immediate usable form; while the unstructured questions were used so as to encourage the respondent to give an in-depth and felt response without feeling held back in revealing of any information (Kombo and Tromp, 2006).

### **3.5.1 Pilot testing of the instrument**

The researcher selected a pilot group of 2 heads of department and 3 employees from National Museums of Kenya to test the reliability of the research instrument. National Museums of Kenya staff were selected because they are also public officers and are under performance contracting for 2014/2015. One of the advantages of conducting this pilot study was to give advice and warnings about where the main research project could fail. The aim was to correct inconsistencies arising from the instruments. This ensured that they measured what was intended. The survey instruments were subjected to overall reliability analysis. A coefficient of 0.70 or more implies that there is a high degree of data reliability.

### **3.6 Validity and Reliability**

The study used validity and reliability tests to ensure meaningfulness and consistency of the results.

#### **3.6.1 Validity**

According to Kothari (2005), validity is the degree to which results obtained from the analysis of the data actually represent the phenomenon under study. It is the

degree to which a test measures what it is intended to measure; a test is valid for a particular purpose and for a particular group (Kothari, 2005). According to Kombo and Tromp (2006) validity is the degree by which the sample of test items represents the content the test is designed to measure. Content validity which has been employed by this study as a measure of the degree to which data collected using a particular instrument represents a specific domain or content of a particular concept. Mugenda and Mugenda (2003) contend that the usual procedure in assessing the content validity of a measure is to use a professional or expert in a particular field.

The content validity of the research instrument was evaluated through a pre-test of the questionnaires on the pilot group where 2 heads of department and 3 employees from National Museums of Kenya were sampled for participation. The respondents in pre-test were not included in the final respondent population. The researcher then made necessary adjustments on the tools, thus improving the level of instruments' validity.

### **3.6.2 Reliability**

According to Ngechu (2004) reliability refers to the consistency of measurement and is frequently assessed using the test-retest reliability method. Reliability was increased by including many similar items on a measure, by testing a diverse sample of individuals and by using uniform testing procedures. From the results of the pilot test, the researcher calculated the Cronbach's alpha for each variable. The Cronbach's coefficient alpha has been advocated as the most widely used in assessing reliability estimates (Kothari, 2005). Nunally and Bernstein (1994) recommend an acceptable reliability estimate that ranges from 0.70 to 0.80 in social sciences. For this study, the Cronbach's coefficient alpha was 0.977 thus confirming the instrument as reliable, consistent and capable of measuring the variables identified for the study.

### **3.7 Data Collection Procedure**

Data collection involved a self-administered questionnaire. The researcher dropped the questionnaires physically at the respondents' place of work. The researcher left the questionnaires with the respondents and collected them later once they were filled. This took duration of two weeks.

### **3.8 Data Analysis Techniques**

Before processing the responses, the completed questionnaires were edited for completeness and consistency. The data then was coded to enable the responses to be grouped into various categories. Data collected was purely quantitative and it was analyzed by descriptive analysis techniques. Data analysis was done using Chi-square test and the findings presented using frequency tables and percentages.

### **3.9 Ethical considerations**

According to Mugenda and Mugenda (2003) a researcher must confirm to the principle of voluntary consent where the respondents willingly participate in research. Informed consent should be based on the information regarding: the purpose of the research study, identification of the researcher, any benefits that may be received. Kothari (2005) notes that participation in research is voluntary and subjects are at liberty to withdraw from the study at any time without any consequences. The researcher communicated this to the respondents before the start of the study. The researcher through the trained assistants ensured that all respondents fully understood all the details pertaining to the study. No respondent was forced to take part in the study but this was done voluntarily.

According to Ngechu (2004) plagiarism refers to passing off another person's work as if it were your own, by claiming credit for something that was done by someone else. It is taking and using another person's thoughts as if they were your own. Utmost care was taken to ensure that all work borrowed from other scholars were acknowledged.

### 3.10 Operational definition of variables

**Table 3.2: Operational definition of variables**

Objectives	Variables (Independent )	Indicators	Measure ment scale	Data analysis method	Study design	Tools of Analysis	Specific Tool
Determine the involvement of employees in formulation of the performance contracts in public projects	employees involvement in performance contracts formulation	<ul style="list-style-type: none"> <li>- Level of involvement</li> <li>- communication on performance targets</li> <li>-involvement in setting targets</li> <li>-Performance appraisal and feedback</li> </ul>	<ul style="list-style-type: none"> <li>-Interval</li> <li>-Nominal</li> <li>-Nominal</li> <li>-Interval</li> </ul>	Descriptive and explanatory	Descriptive and explanatory	Central tendency dispersion, and causal relationship	Mean, standard deviation, regression and correlation analysis
Examine influence of management procedures and practices on performance contracts	management procedures and practices	<ul style="list-style-type: none"> <li>- Policies on training and Development</li> <li>- involvement in policy development</li> <li>- policies implemented</li> <li>- Processes in the organization</li> <li>- Remuneration and reward system</li> <li>- levels of control in the organization</li> </ul>	<ul style="list-style-type: none"> <li>-Interval</li> <li>-Nominal</li> <li>-Nominal</li> <li>-Interval</li> </ul>	Descriptive and explanatory	Descriptive and explanatory	Central Tendency Dispersion, and causal relationship	Mean, standard deviation, regression and correlation analysis

Determine the influence of implementation of performance contract on staff performance.	staff performance	<ul style="list-style-type: none"> <li>- staff output</li> <li>Time taken to complete a task</li> <li>-Performance measurement</li> <li>-Time frame</li> <li>-content of one's work tasks</li> <li>-Team work spirit</li> </ul>	<ul style="list-style-type: none"> <li>-Interval</li> <li>-Nominal</li> <li>-Nominal</li> <li>-Interval</li> </ul>	Descriptive And Explanatory	Descriptive and Explanatory	Central Tendency Dispersion, and causal relationship	Mean, standard deviation, regression and correlation analysis
Contribution of performance contracts to the achievement of customer demands	service delivery and customer Satisfaction	<ul style="list-style-type: none"> <li>- level of accountability among officers</li> <li>- Time taken to complete a task</li> <li>- quality of services delivered to customers</li> </ul>	<ul style="list-style-type: none"> <li>-Interval</li> <li>-Nominal</li> <li>-Nominal</li> <li>-Interval</li> </ul>	Descriptive And Explanatory	Descriptive and Explanatory	Central Tendency Dispersion, and causal relationship	Mean, standard deviation, regression and Correlation analysis

## CHAPTER FOUR

### DATA ANALYSIS, PRESENTATION AND INTERPRETATION

#### 4.1 Introduction

This chapter presents research findings, analysis of the data and interpretation of the data collected from the respondents.

It also presents findings on the observations and discussion on the dependent variables as well as moderating variables; that is how involvement of employees in performance contract formulation influences service delivery in public projects, how management procedures and practices influence performance contracts in the delivery of services in public projects, how implementation of performance contract influence staff performance in delivery of public projects, how performance contract contributes to the achievement of customer demands from public projects and how government policy on performance contracting . The data collected was analyzed and the findings were presented using frequencies and percentages outlined in the frequency tables.

#### 4.2 Response Rate

A total of 65 questionnaires were distributed and administered to the respondents. A total of 50 questionnaires were returned giving an average response rate of 76.92% for all the respondents.

**Table 4. 1: Response Rate**

	Frequency	Percent
Completed	50	76.92
Not completed	15	23.08
Total	65	100.0

### 4.3 Demographic Characteristics of Respondents

The study required to establish the pattern in the personal data of the respondents. The personal data captured is shown in tables 4.2 and 4.3 below:

**Table 4.2: Personal Data**

	Frequency	Percent
Number of years worked		
Less than 5 years	2	4
6-10 years	23	46
11-15 years	14	28
16-20 years	8	16
Above 21 years	3	6
Total	50	100

The personal data characteristics outlined in table 4.2 are important in finding out the factors influencing performance contracting on delivery of public projects. From the findings majority of the respondents (46%) had worked for between 6-10 years, 28% for between 11-15 years, 16% for between 16-20 years and 6% had worked for above 21 years.

**Table 4.3: Duration of service as HOD**

	Frequency	Percent
Under 1 year	3	15
Under 2 years	6	30
Under 3 years	7	35
5 years and above	4	20
Total	20	100

Notable observations in table 4.3 are that majority of the respondents had served as heads of departments for fewer than 3 years, 35% for under 2 years, 30% for 5 years and above, 20% while 15% for under 1 year. This subsequently translated to vast experiences in matters performance contracts. Similarly, majority of the respondents indicated that implementation of the process of Performance Contracting began in 2004 in their organizations.

#### **4.4 Employees involvement in Performance Contract Formulation**

##### **4.4.1 The stage Employees Get Involved in Performance Contracting**

The study wanted to establish the stage at which the employees got involved in performance contracting in the organization. The respondents were asked to indicate their opinions that were tabulated in table 4.4 as shown below.

**Table 4.4: The stage Employees Get Involved in Performance Contracting**

	Frequency	Percent
During formulation of contracts	8	16
When the contracts are due for signing then implementation	22	44
From formulation, implementation and evaluation	20	40
Total	50	100

From the above it can be seen that, 44% of the respondents indicated that the employees were involved when the contracts were due for signing then implementation, 40% of the respondents indicated that the employees were involved from formulation, implementation and evaluation while 16% of the respondents indicated that the employees were involved during formulation of contracts. This findings show that the majority of employees are able to deliver service targeted as a result of high involvement in performance contracts from the initial stages and that managers did understand performance contract.

##### **4.4.2 Level of Employee Involvement in Formulation of Performance Contracts**

The study sought to establish the level of employee involvement in formulation of performance contracts in the department. The parameters considered and their scores were recorded as shown in table 4.5



**Table 4.5: Level of Employee Involvement in Formulation of Performance Contracts**

	Frequency	Percent
High	4	8
Medium	10	20
Low	36	72
Total	50	100.0

From results in table 4.5; it can be seen that 72% of the respondents rated the level of employee involvement in formulation of performance contracts as low, 20% rated the level of employee involvement as medium while 8% rated the level of employee involvement as high. These findings imply that members of staff are not sufficiently involved in drawing up contract targets which affects the implementation of the performance contracts.

**4.4.3 Testing of Hypothesis on Employees' involvement in performance contract formulation**

Null Hypothesis ( $H_0$ ): There is no relationship between employee involvement in performance contract formulation and service delivery in public projects

Alternative Hypothesis ( $H_1$ ): Employee involvement in performance contract formulation leads to success in service delivery in projects.

The hypothesis was tested and calculated using Chi-square and the results were shown in table 4.6 below;

**Table 4.6: Cross Tabulation on Level of Employee Involvement**

Scale	O	E	$(O-E)^2$	$(O-E)^2/E$
High	4	50	2,116	42.32
Medium	10	50	1,600	32
Low	36	50	196	3.92
				78.24

$$\chi^2 = \sum (O-E)^2/E$$

$$\chi^2 = 78.24$$

D.F. = 2

At 5% level of significance

$$\chi^2 = 5.99$$

**Table 4.7: Chi- Square Test on Employee Involvement**

Testing of independence between rows and columns		
Chi-squares	$\chi^2$	78.24
DF		2
Chi-square	$\chi^2_x$	5.99
Level of significance		0.05

**Decision:** Since  $\chi^2$  (observed value) 78.24 is greater than  $\chi^2_x$  (critical value) 5.99 at 5% level of significance. We accept  $H_1$  and reject  $H_0$ .

Based on the sample information, involvement of employees in performance contracts formulation leads to successful service delivery in public projects.

#### **4. 5 Influence of Managements Procedures and Practices on Performance Contracts**

##### **4.5.1 Whether the management maintains a high standard of Performance contracting enactment**

The study sought to establish whether management maintained a high standard of performance contracting enactment.

**Table 4.8: Whether the management maintains a high standard of Performance contracting enactment**

	Frequency	Percent
Yes	3	6
No	47	94
Total	50	100.0

According to the findings, 94% of the respondents indicated that management maintain a high standard of Performance Contracting enactment while 6% of the respondents indicated that management did not maintain a high standard of Performance Contracting enactment. In order to be effective in conducting business

or rendering service, there is need to implement management procedures and practices that will yield the desired results. Under performance contracts, targets are set and although the areas of concern are the outcomes rather than the processes, the processes do determine the outcomes.

#### 4.5.2 Rate the Department's Services Delivery

The study sought to rate the departments services delivery.

**Table 4.9: Rate the Department's Services Delivery**

	Frequency	Percent
Very high	4	8
Good	14	28
Fair	12	24
Poor	20	40
Total	50	100.0

According to the findings, 40% rated service delivery as poor, 28% as good, 24% as fair while 8% as very high. Lack of implementation of performance based contracting leads to decreased accountability for service delivery and deliverables, and decreased partnership.

#### 4.5.3 Rate the Service Delivery of the Organization as a Whole

The study sought to rate the organizations service delivery.

**Table 4.10: Rate the Service Delivery of the Organization as a Whole**

	Frequency	Percent
Very high	10	20
Good	3	6
Fair	28	56
Poor	9	18
Total	50	100.0

From the results above,56% of the respondents rated the organizations service delivery as fair,20% rated it as very high,18% rated it as poor while 6% rated it as good. Performance contracts enhance service delivery as well as customer and employees satisfaction in various ways. For example, the aim of introducing

performance contracts is to improve service delivery to the public by ensuring the top-level managers are accountable for results, reverse the decline in efficiency and ensure that resources are focused on attainment of key national policy priorities of the government.

#### 4.5.4 Policies the Government has put in Place to Improve Service Delivery

The study sought to establish the policies the government has put in place to improve service delivery. According to the findings, the respondents indicated that the government had established reward systems that are pegged to performance, formulated goals that are SMART and well communicated stringent punishment systems on non-compliance with PC targets, non-political interference and provided resources for PC targets. Governments globally, are the policy making bodies while public organizations are either government policy implementing agencies or service delivery bodies. For that matter, the autonomy or decision making power of public organizations is related to issues of policy.

#### 4.5.5 Testing Hypothesis on Management Procedures and Practices' Influence on Performance Contracts

Null Hypothesis ( $H_0$ ): Application of different management procedures and practices do not have an influence on performance contracts

Alternative Hypothesis ( $H_1$ ): Use of different Management procedures and practices have both direct and indirect influence on performance contracts

The hypothesis was tested and calculated using Chi-square and the results were shown in table 4.11 below;

**Table 4.11: Cross Tabulation on Management Procedures and Practices**

Scale	O	E	$(O-E)^2$	$(O-E)^2/E$
Very High	10	50	1,600	32
Good	3	50	2,209	44.18
Fair	28	50	484	9.68
Poor	9	50	1,681	33.62
				119.48

$$\chi^2 = \sum \frac{(O-E)^2}{E}$$

$$\chi^2 = 119.48$$

$$D.F. = 3$$

At 5% level of significance

$$\chi^2_{\alpha} = 7.82$$

**Table 4.12: Chi-Square Test on Management Procedures and Practices'**

Testing of independence between rows and columns		
Chi-squares	$\chi^2$	119.48
DF		3
Chi-square	$\chi^2_{\alpha}$	7.82
Level of significance		0.05

**Decision:** Since  $\chi^2$  (observed value) 119.48 is greater than  $\chi^2_{\alpha}$  (critical value) 7.82 at 5% level of significance. We accept  $H_1$  and reject  $H_0$ .

Based on the sample information, use of different Management procedures and practices have both direct and indirect influence on performance contracts.

#### **4.6 Influence of Implementation of Performance Contracts on Staff Performance**

##### **4.6.1 Implementation of Performance Contracts Influenced Staff Performance**

The study sought to find out how the implementation of performance contracts influenced staff performance in the organization. The respondents indicated that it; increased staff output, performance measurement creating the desire to accomplish targets, promoted team work spirit and led to continuous communication between employees and supervisors as well as reward for good performance. Performance is multi-faceted hence it is measured in terms of output and outcome, profit, internal processes and procedures, organizational structures, employee attitudes and organizational responsiveness to the environment.

#### **4.6.2 Challenges Encountered While Implementing Performance Contracts**

The study sought to establish whether the department had encountered challenges while implementing performance contracts.

**Table 4.13: Challenges Encountered While Implementing Performance Contracts**

	Frequency	Percent
Yes	35	70
No	15	30
Total	50	100.0

From the above results, 70% of the respondents indicated that the department had encountered challenges while 30% of the respondents indicated that the department had not encountered challenges while implementing performance contracts.

#### **4.6.3 List Challenges Encountered**

The study sought to find out the challenges encountered in the implementation of performance contracts. The respondents listed lack of properly defined reward systems, lack of proper goals (targets), lack of training, poor management systems and procedures and information advantage by the subordinate over the supervisor as some of the challenges.

#### **4.6.4 Attributes to Service Improvement**

The study sought to establish the attributes to service improvement that have contributed to the success of performance contracting in the department.

**Table 4.14: Attributes to Service Improvement**

	Frequency	Percent
Team spirit	3	6
Well trained and qualified personnel	21	42
Availability of resources	20	40
Good communication both vertically and horizontally	6	12
Total	50	100.0

From the results above, 42% of the respondents indicated that well trained and qualified personnel contributed to the success of performance contracting in the department, 40% indicated availability of resources, 12% indicated good communication both vertically and horizontally while 6% indicated team spirit. Training should start from creating employee awareness on contract statement of work to be implemented which is the foundation of performance based services. Research in training effectiveness consistently indicates that regardless of the quality of training content and facilitation, on average only 10 to 20 percent of training transfers to the job so that performance is changed and enhanced.

#### **4.6.5 Management Technique Used to Implement Performance Contracting**

The study sought to find out the management techniques the heads of departments used to implement performance contracting in the organization.

**Table 4.15: Management Technique Used to Implement Performance Contracting**

	Frequency	Percent
Result Based Management	7	14
Value Based Management	3	6
Balanced Scorecard	35	70
Activity Based Management	5	10
Total	50	100.0

From the results above, 70% used the balance scorecard, 14% used result based management, 10% used activity based management while 6% used value based management. A performance contract constitutes a range of management instruments used to define responsibilities and expectations between parties to achieve mutually agreed results. It is a useful tool for articulating clearer definitions of objectives and supporting innovative management, monitoring and control methods and at the same time imparting managerial and operational autonomy to public service managers.

#### 4.6.6 Testing Hypothesis on Implementation of Performance Contract and Staff Performance

Null Hypothesis ( $H_0$ ): Implementation of performance contract does not have an influence on staff performance in public conservation projects.

Alternative Hypothesis ( $H_1$ ): Implementation of performance contract influences staff performance in public conservation projects

The hypothesis was tested and calculated using Chi-square and the results were shown in table 4.16 below;

**Table 4.16: Cross Tabulation on Implementation of Performance Contracts**

Attributes to service improvement	O	E	$(O-E)^2$	$(O-E)^2/E$
Team spirit	3	50	2,209	44.18
Well trained personnel	21	50	841	16.82
Availability of resources	20	50	900	18
Good communication both vertical and horizontal	6	50	1396	38.78
				117.72

$$\chi^2 = \sum (O-E)^2/E$$

$$\chi^2 = 117.72$$

D.F. = 3

At 5% level of significance

$$\chi^2_{\alpha} = 7.82$$



**Table 4.17: Chi-Square Test on Implementation of Performance Contract**

Testing of independence between rows and columns		
Chi-squares	$\chi^2$	117.72
DF		3
Chi-square	$\chi^2_x$	7.82
Level of significance		0.05

**Decision:** Since  $\chi^2$  (observed value) 117.72 is greater than  $\chi^2_x$  (critical value) 7.82 at 5% level of significance. We accept  $H_1$  and reject  $H_0$ .

Based on the sample information, implementation of Performance contract influences staff performance in public conservation projects.

#### **4.7 Contribution of Performance Contract towards Achievement of Customer Demands**

The study sought to find whether performance contracts lead to attainment of customer demands from public conservation projects.

##### **4.7.1 Improvement on Service Delivery to the Public**

The study needed to find out whether there had been improvements on service delivery to the public since the implementation of P.C. Using the questionnaire respondents were asked to give their opinions and their responses were recorded as shown in table 4.18 below;

**Table 4.18: Improvement on Service Delivery to the Public**

	Frequency	Percent
Yes	48	96
No	2	4
Total	50	100.0

From the above results it can be said that most of the respondents at 4% indicated that there haven't been improvements on service delivery to the public since the implementation of P.C while 96% indicated that there have been improvements on service delivery to the public since the implementation of P.C. Performance contract

initiatives have positively injected new management procedures and practices influencing timeliness in service delivery.

#### **4.7.2 The Improvements so Far**

The study sought to establish the improvements made on service delivery to the public since the implementation of P.C .The respondents indicated that accountability and transparency has been enhanced, efficiency and effectiveness in service delivery, enhanced teamwork and timeless in service delivery .This is to imply that under performance contracts, targets are set and although the areas of concern are the outcomes rather than the processes, processes do determine the outcomes. A major tool that is identified as a success factor in performance contracting and forms basis of management procedures and practices is strategic plan. Management has to have a strategic plan which enables an organization to be better focused on its core operations.

#### **4.7.3 Attribute to the Service Improvement**

The study sought to establish the attributes to service improvement. The respondents indicated; participatory formulation of performance contracts, training of employees, reward system that is pegged on performance and communication of corporate strategy to employees. This is to mean that employeesø participation in setting targets, utilization of resources, training sessions and increase in revenue are some of the measure that can be used to determine the level of employeesø involvement in performance contract.

#### **4.7.4 Attribute Leading to Lack of Improvements**

The study sought to find out the attributes that led to lack of improvements. According to the findings the respondents indicated that lack of training, lack of employee motivation and poor appraisal systems were some of the attributes that led to lack of improvements.

#### 4.7.5 Testing of Hypothesis on Contribution of Performance Contract towards Achievement of Customer Demands

Null Hypothesis ( $H_0$ ): Existence of performance contract in public conservation projects does not contribute towards achievement of customer demands

Alternative Hypothesis ( $H_1$ ): Performance contract contributes towards achievement of customer demands from public projects

The hypothesis was tested and calculated using Chi-square and the results were shown in table 4.19 and 4.20 below;

**Table 4.19: Cross Tabulation on Contribution of PC towards attainment of Customer Demands**

Improvements on Service Delivery	O	E	$(O-E)^2$	$(O-E)^2/E$
Yes	48	50	4	0.08
No	2	50	2,304	46.08
				46.16

$$\chi^2 = \sum \frac{(O-E)^2}{E}$$

$$\chi^2 = 46.16$$

D.F. = 1

At 5% level of significance

$$\chi^2_x = 3.84$$

**Table 4.20: Chi-Square Test on Contribution of Performance Contracts**

Testing of independence between rows and columns		
Chi-squares	$\chi^2$	46.16
DF		1
Chi-square	$\chi^2_x$	3.84
Level of significance		0.05

**Decision:** Since  $\chi^2$  (observed value) 46.16 is greater than  $\chi^2_x$  (critical value) 3.84 at 5% level of significance. We accept  $H_1$  and reject  $H_0$

Based on the sample information, performance contract contributes towards achievement of customer demands from public projects.

## CHAPTER FIVE

### SUMMARY OF FINDINGS, DISCUSSIONS, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Introduction

The summary of findings , discussions, conclusion and recommendations arrived at in this chapter are restricted to the mandate and objectives of this study .Suggestions for future research have also been made.

#### 5.2 Summary of Findings

The study was designed to find out the factors influencing performance contracting on delivery of public projects using a case of conservation projects in Lamu County.

Four main variables were identified by the study for investigation.

These were involvement of employees in performance contract formulation, management procedures and practices, implementation of performance contract and contribution of performance contract to the achievement of customer demands from public projects. The study answered four research questions and tested four hypotheses covering all the variables.

In the research questions, the study observed that performance contracting influenced delivery of public conservation projects as follows:

With regards to the first objective which aimed at determining how involvement of employees in performance contract formulation influences service delivery in public projects, 44% of the respondents indicated that the employees were involved when the contracts were due for signing then implementation. Level of employee involvement was rated as low by a majority 72%. There had been improvements on service delivery to the public since the implementation of P.C as indicated by 96%. These findings imply that employees are not sufficiently involved in drawing up contract targets which affect the implementation of performance contracts. The study also showed that majority of employees are able to deliver targeted service to the public due to high involvement in PC from initial stages and that managers did

understand the performance contracting well. Hypothesis testing revealed that the  $\chi^2$  (observed value) 78.24 was greater than  $\chi^2_x$  (critical value) 5.99 at 5% level of significance from Chi-Square test on employee involvement in performance contract formulation thus confirming the alternative hypothesis that involvement of employees in Performance contract formulation influences service delivery in public projects.

The second objective was to examine how management procedures and practices influence performance contracts in the delivery of services in public projects. The study established that different management procedures and practices influenced performance contracting as a means of delivering services from public projects. On the standards of Performance contracting, 94% of the respondents indicated that management maintained high standards of performance contracting while on the departments' service delivery, 40% rated service delivery as poor. On the other hand, 56% of the respondents rated the organizations service delivery as fair. With regards to management technique used, 70% of the respondents used the balance scorecard. Hypothesis testing revealed that  $\chi^2$  (observed value) 119.48 was greater than  $\chi^2_x$  (critical value) 7.82 at 5% level of significance from Chi-Square test. This is to say that different management procedures and practices influence performance contracts in the delivery of services from public projects. This supports the alternative hypothesis

The third objective of the study was to determine how implementation of performance contracts influences staff performance on delivery of public projects. The respondents indicated that implementation of performance contracts led to increased staff output, performance measurement creating the desire to accomplish targets, promoted team work spirit and led to continuous communication between employees and supervisors as well as reward for good performance. On challenges encountered while implementing PC, 70% of the respondents indicated that the department had encountered challenges. The challenges encountered included lack of properly defined reward systems, lack of proper goals (targets), lack of training, poor management systems and procedures and information advantage by the subordinate

over the supervisor as some of the challenges. 42% of the respondents indicated that well trained and qualified personnel contributed to the success of performance contracting in the department. Hypothesis testing revealed that  $\chi^2$  (observed value) 117.72 was greater than  $\chi^2_x$  (critical value) 7.82 at 5% level of significance from Chi-Square test thus confirming that implementation of performance contract influences staff performance in delivery of public projects

Finally, the fourth objective to determine how performance contract contributes to the achievement of customer demands from public projects. The study established the improvements made on service delivery to the public since the implementation of P.C included ; enhanced accountability and transparency, efficiency and effectiveness in service delivery, enhanced teamwork and timeless in service delivery. The attributes that led to service improvement included; participatory formulation of performance contracts, training of employees, reward system that is pegged on performance and communication of corporate strategy to employees. On the other hand attributes leading to lack of improvements comprised of; lack of training, lack of employee motivation and poor appraisal systems. The study also deduced that the government had established reward systems that are pegged to performance, formulated goals that are SMART and well communicated stringent punishment systems on non-compliance with PC targets, non- political interference and provided resources for PC targets. Hypothesis testing revealed that  $\chi^2$  (observed value) 46.16 is greater than  $\chi^2_x$  (critical value) 3.84 at 5% level of significance from Chi-Square test thus confirming that performance contract contributes to the achievement of customer demands from public projects.

### 5.3 Discussions

From the first objective which was to determine involvement of employees in performance contract formulation, the study revealed that Level of employee involvement was rated as low. The study also revealed that members of staff are not sufficiently involved in drawing up contracts which affects the implementation of the performance contracts. The study also deduced that employees' participation in setting targets, utilization of resources, training sessions and increase in revenue are some of the measure that can be used to determine the level of employees' involvement in performance contract. This is in line with Omboi and Kabui (2011) who noted that majority of employees are able to deliver service targeted as a result of high involvement in performance contracts from the initial stages and that managers did understand performance contract.

The second objective was to examine how management procedures and practices influence performance contracts in the delivery of services in public projects. The study revealed that the management maintained high standards of performance contracting. The organizations' service delivery was rated higher than the departments' service delivery to the public. The study also revealed that many organizations used balanced scored card technique in the implementation of performance contracts. This agrees with Kiboi (2006), that Balanced Scorecard is the most successful driver of culture change organization-wide. The study result is also supported by (Kaplan, 2001) who noted that balanced scorecard is a management control system that enables organizations to clarify their strategies, translate them into action, and provide quantitative feedback as to whether the strategy is creating value, leveraging core competences satisfying the company's customers and generating a financial reward to its shareholders.

The study deduced from the third objective which was on the influence of implementation of performance contracts on staff performance that implementation of performance contracts led to increased staff output, performance measurement creating the desire to accomplish targets, promoted team work spirit and led to continuous communication between employees and supervisors as well as reward for

good performance. The attributes that led to service improvement included; participatory formulation of performance contracts, training of employees, reward system that is pegged on performance and communication of corporate strategy to employees. On the other hand attributes leading to lack of improvements comprised of; lack of training, lack of employee motivation and poor appraisal systems.

A study by Candido and Santos (2008) indicated that performance contracts are a powerful tool that motivates managers and employees to live up to the contract requirements due to its nature as a commitment with another party. Performance contracts leads to the identification of roles played by each member of staff providing the employees a distinct opportunity in achievement of organizational objectives which intern provides employees with the motivation to perform because they own the objectives of the organization (Obongø, 2009). Staff performance under performance contract has been viewed as an important instrument for the implementation of performance management used to set and improve targets between parties.

The fourth objective was to determine how performance contract contributes to the achievement of customer demands from public projects. The study established that Performance contracting play a critical role in enhancing performance of organizations in the areas of customer satisfaction, employee satisfaction and revenue generation. Martin (2005) noted that implementation of performance based contracting lead to increased accountability for service delivery and deliverables, and increased partnership. The study results are supported by Tilaye (2007) which asserted that when employees are responsible for their actions and accountable for their results, their performance increases. Performance contracts enhance service delivery as well as customer and employees satisfaction The study also deduced that the challenges encountered included lack of properly defined reward systems, lack of proper goals (targets), lack of training, poor management systems and procedures and information advantage by the subordinate over the supervisor as some of the challenges .The study also deduced that as implemented in many situations, performance contracting involves a highly structured phase of evaluating results.



#### **5.4 Conclusions**

The study concludes that performance contract is a useful tool for articulating clearer definitions of objectives and supporting innovative management, monitoring and control methods and at the same time imparting managerial and operational autonomy to public service managers. It is therefore a management tool for ensuring accountability for results by public officials, because it measures the extent to which they achieve targeted results.

Performance contracts and management form part of the integral force that is concerned with how procedures will generate desired results through human resource. Performance contract initiatives have positively injected new management procedures and practices influencing timeliness in service delivery.

The study also concludes that performance contracts put pressure on the entire services network to work towards improving performance. The study further concludes that Performance contracts reduce the level of job controls on the employees part. The level of job control refers to how much influence a workplace offers over sequence, time frame and content of one's work tasks

#### **5.5 Recommendations**

Performance goals are all too often perceived as being imposed from the management rather than from a collective thought process. Therefore, the study recommends that for performance contract to effectively have impact on employee performance, managers must be willing to involve members of staff in development of yearly performance objectives and targets

In order to be effective in conducting business or rendering service, the study recommends that there is need to implement management procedures and practices that will yield the desired results. Under performance contracts, targets are set and although the areas of concern are the outcomes rather than the processes, the processes do determine the outcomes.

The study recommends that organizations should concentrate on developing a proper training programme because with a proper training programme in place, productivity

will be enhanced. This is because after evaluation the supervisors get to know the areas of where their staff needs training, where the gap is. A trained employee other than acquiring knowledge he becomes confident in discharging his duties. Therefore training is also a motivator.

Management has to have a strategic plan which enables an organization to be better focused on its core operations. Organizations need to have strategic plan where objectives and action plans are clearly set out and reviews done regularly. The purpose of management procedures and practices is to improve control of the use of organizational resources, monitor performance and safeguard tangible assets.

#### **5.5.1 Suggestions for Further Studies**

Comparative studies should be done on service delivery in both private and public projects.

#### **5.6 Contribution to the Body of Knowledge**

The study has established that involvement of employees in all phases of performance contracting, use of management procedures and practices compatible with employee expectations, participatory implementation of performance contracts as well as orientation of performance contracts to the customer demands have a positive relationship with successful delivery of public projects.

The inductive conclusion of goal setting theory that employee with challenging but specific and explicit goals tend to achieve better results than those with equivocal goals since the former directs attention, effort and even search for requisite skills to maximize performance. This supersedes the agency theory which talks of an agreement between the principal's interest and agent's interest for performance to be achieved. However, the theory failed to observe that in the long run, the agent's interests tend to deviate from the interests of the principal. The deviation of the agent's interests from the interests of the principal causes failure in achieving performance targets. This is validated by poor performance of some state corporations in Kenya where public officials (agents) pursue their own interests at the expense of public (the principal) interests.

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**APPENDICES**

**APPENDIX 1: LETTER OF TRANSMITTAL**

Ombogo Moses Odhiambo

P.O. BOX 425-80500

LAMU.

Cell Phone: 0727 278 338

Theí í í í í í í í í í í í í í í .

í í í í í í í í í í í í í í í ...

Dear Sir/Madam,

**RE: ACADEMIC RESEARCH**

The above subject refers. I am a student at University of Nairobi currently pursuing a Masters Degree in Project Planning and Management. In accordance with the requirements of the course, I am expected to carry out a research project on areas related to projects and management. In this regard, I am conducting a research on factors influencing performance contracting on delivery of public conservation projects in Lamu County, Kenya.

Your corporation is among the government departments captured in the population of study for the purpose of this research. Therefore, I am kindly requesting for your participation in answering the questions entailed in the questionnaires since your views shall be very significant in this study. The information given by you will be kept strictly confidential and used solely for the purpose of this research.

Thank you.

Moses Ombogo

## APPENDIX II

### QUESTIONNAIRE

The aim of this questionnaire is to help in collecting data for the research project on Factors Influencing Performance Contracting on Delivery of Conservation Projects in Lamu County, Kenya. All answers will be treated with strict confidence. You are requested to answer these questions to the best of your knowledge. Thank you.

1. NAME (Optional) \_\_\_\_\_
2. TITLE \_\_\_\_\_
3. DEPARTMENT \_\_\_\_\_
4. Number of years worked within the Organization you are working in now  
Less than 5 years [ ] 6-10 years [ ] 11-15 years [ ]  
16-20 years [ ] above 21 years [ ]
5. What is your line of work in the department? Briefly explain
  - a) \_\_\_\_\_
  - b) \_\_\_\_\_
6. How long have you served as a Head of Department?
  - a) Under 1 year [ ]
  - b) Under 2 years [ ]
  - c) Under 5 years [ ]
  - d) 5 years and above [ ]
7. When was Performance Contracting implemented in your organization?  
\_\_\_\_\_
8. At what stage do the employees get involved in performance contracting in your organization?
  - a) During formulation of contracts
  - b) When the contracts are due for signing then implementation
  - c) From formulation, implementation and evaluation

9. What is the level of employee involvement in formulation of performance contracts in your department? (Tick one)

a) High Medium Low

b) Explain why?

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10. Has there been improvement on service delivery to the public since the implementation of P.C.

Yes [ ] No [ ]

11. If yes, what are the improvements so far? select any 3

a) Accountability and transparency has been enhanced.

b) Efficiency and effectiveness in service delivery.

c) Enhanced teamwork.

d) Timeless in service delivery.

12. What would you attribute to the service improvement in your department? Tick the points that most apply.

a) Participatory formulation of performance contracts.

b) Training of employees.

c) Reward system that are pegged on performance.

d) Communication of corporate strategy to employees.

e) Other,specify\_\_\_\_\_

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13. If NO improvement has been noticed what would you attribute to be the cause? Tick the points that apply.

a) Lack of training.



- b) Lack of employee motivation.
  - c) Poor appraisal systems.
  - d) Other, specify
- 
- 

14. How has the implementation of performance contracts influenced staff performance in your organization? (Tick any four)

Increased staff output

Performance measurement creating the desire to accomplish targets

Team work spirit

Continuous communication between employees and supervisors

Reward for good performance

15. Are there any challenges that the department has encountered while implementing Performance Contracts?

- a) Yes
- b) No

16. If yes, tick any 3 challenges to support this assertion.

- a) Lack of properly defined reward systems.
  - b) Lack of proper goals (targets)
  - c) Lack of training.
  - d) Poor management systems and procedures
  - e) Information advantage by the subordinate over the supervisor.
  - f) Other,  
specify\_\_\_\_\_
- 

17. What are some of the attributes to service improvement do you think have contributed to the success of performance contracting in your department?

- a) Team spirit.
- b) Well trained and qualified personnel.
- c) Availability of resources.
- d) Good communication both vertically and horizontally.

18. Which management technique do you use to implement Performance Contracting in your organization? Tick One.

- a) Result Based Management.
- b) Value Based Management.
- c) Balanced Scorecard.
- d) Activity Based Management.
- e) Other,  
specify. \_\_\_\_\_  
\_\_\_\_\_

19. Does management maintain a high standard of Performance Contracting enactment?

- a) Yes
- b) No

20. If yes, cite 3 special examples of what is being done

- a) \_\_\_\_\_
- b) \_\_\_\_\_
- c) \_\_\_\_\_

21. If No, cite at least 2 reasons to support this assertion to support your answer

- a) \_\_\_\_\_
- b) \_\_\_\_\_

22. How would you rate the department's services delivery?

- a) Very high.
- b) Good.

- c) Fair.
- d) Poor.

23. If very high/good, what are the reasons for it give any three reasons.

- a) \_\_\_\_\_
- b) \_\_\_\_\_
- c) \_\_\_\_\_
- d) \_\_\_\_\_

24. If poor, what is lacking? Kindly explain.

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25. How would you rate the service delivery of your organization as a whole?

- a) Very high
- b) Good
- c) Fair
- d) Poor

26. What policies according to you has the government put in place to improve service delivery? Tick any 3 suggestions.

- a) Established reward systems that are pegged on performance.
- b) Formulated contract goals that are SMART and well communicated
- c) Stringent punishment systems on non-compliance with PC targets
- d) Non- political interference.
- e) Provided resources for PC targets
- f) Specify any other that is not mentioned above.

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