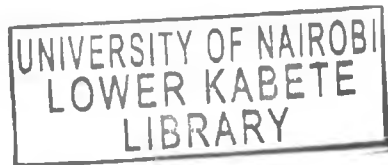


**FACTORS INFLUENCING IMPLEMENTATION OF  
PERFORMANCE CONTRACTS IN LOCAL AUTHORITIES IN  
KENYA**

**BY  
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PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE  
MASTERS OF BUSINESS ADMINISTRATION (MBA) DEGREE,  
UNIVERSITY OF NAIROBI**

**NOVEMBER, 2011**

## DECLARATION

This project is my original work and has not been submitted to any other university for examination purpose.

Signature  .....Date 12/11/2011.....

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### Declaration by Supervisor

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

Signature  .....Date 14/11/2011.....

**M/s Florence Muindi**

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Above all, I would like to thank God for keeping me healthy and steady to complete my postgraduate studies.

## **DEDICATION**

I dedicate this work to my husband, Mr. Charles Kinyeki and children Salome, William and Charity and to my parents, Mr. and Mrs. Joseph Muhiuha Ngaku.

## ABSTRACT

Performance contracting applies to organizations with recurrent activities that establish organizational goals, monitor progress towards the goals, and make adjustments to achieve those goals more effectively and efficiently. Performance Contracting practices ensure that successful organization realize their performance goals as a critical business tool to ensure that strategy is translated into results at the least cost. The objective of the study was to establish the factors influencing implementation of performance contract in local authorities in Kenya.

The methodology employed was a cross-sectional survey. Out of the 81 sampled respondents, 51 responded representing a response rate of 63%. The data was collected through structured questionnaire. The data was analyzed using both descriptive analysis and factor analysis techniques.

The findings indicated that employees from all local authorities highly rated involvement of employees to ensure acceptability of a performance contracting system. The study found out that the least factor exhibited was the use of negative sections to encourage managers efforts. The study therefore concludes that there are various factors that influence implementation of performance contracts in Local authorities in Kenya. It is recommended that managers of local authorities seeking to see the successful implementation of performance contracts need to focus on involving users in creating performance targets, linking rewards to performance and providing effective leadership in ensuring employees personal development especially in terms of motivation and communications.

## **LIST OF ABBREVIATIONS**

<b>AAPAM</b>	<b>African Association for Public Administration and Management</b>
<b>CAPAM</b>	<b>Commonwealth Association for Public Administration and Management</b>
<b>PC</b>	<b>Performance Contracting</b>
<b>PM</b>	<b>Performance Management</b>
<b>LAs</b>	<b>Local Authorities</b>
<b>OEDC</b>	<b>Organization for Economic Co-operation and Development</b>
<b>RMLF</b>	<b>Road Maintenance levy fund</b>
<b>CILOR</b>	<b>Contribution in lieu of rates</b>
<b>PCSC</b>	<b>Public Contracts Steering Committee</b>
<b>ERSWEC</b>	<b>Economic Recovery Strategy for Wealth and Employment Creation</b>
<b>MOU</b>	<b>Memorandum of Understanding</b>

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## **CHAPTER ONE: INTRODUCTION**

### **1.1 Background of the study**

Performance management in organizations is viewed as the total system of gathering relevant information, providing specific feedback to individuals and work groups, and applying such information for the improvement of organizational effectiveness (Bernardin, Hagan, Kane, and Villanova, 1998). It is the systematic process by which an agency involves its employees, as individuals and members of a group, in improving organizational effectiveness in the accomplishment of agency mission and goals.

According to GoK (2007), a performance contract is a management tool for measuring negotiated performance targets. It is a freely negotiated performance agreement between the government, acting as the owner of public agency on one hand, and the management of the agency on the other hand. The performance contract specifies the mutual performance obligations, intentions and the responsibilities of the two parties. Similarly, it also addresses economic/social and other tasks to be discharged for economic or other gains. The Public Sector has undertaken several initiatives aimed at aligning itself to emerging challenges, roles and responsibilities.

The Public Sector aims at re-engineering itself through programmes such as Public Enterprise Reform Programme, the introduction of Strategic Plans, Result Oriented Management, and Performance Contracts. The reform programme in Kenya as in many countries, promised a lot both to the citizens and the public servants, promises which

were not being fulfilled fast enough. Public services in many African countries are confronted with many challenges, which constrain their delivery capacities (Lienert, 2003). They include the human resource factor, relating to shortages of the manpower in terms of numbers and key competencies, lack of appropriate mindsets, and socio psychological dispositions. On the other hand, the gradual erosion of the ethics and accountability has continued to bedevil the public sector in delivering public services to the people effectively. Public sector reforms meant to address these challenges have achieved minimal results (AAPAM, 2005).

### **1.1.1. The Concept of Performance Contracting**

The definition of Performance Contracts itself has been a subject of considerable debate among the scholars and human resource practitioners. Performance Contracting is a branch of management science referred to as Management Control Systems. Shirley and Xu (1998) found that PCs did not improve total factor or labor productivity or profitability because they failed to reduce information asymmetry, provide sufficiently high-powered incentives and credibly commit both parties to the goals of the contract. According to a Sensitization Training manual, 2004 a PC is an agreement between two parties that clearly specify their mutual performance obligations, and the agency itself.

On the individual basis, it would then be the record of a person's accomplishments (Bernadine et al, 1995; Kane, 1996). On the other hand, it has also been suggested that performance is behavior and should be distinguished from the outcomes because the outcomes can be contaminated by systems prevalent in the organization (Campbell,

1990). Performance means both Behavior and result .Behavior, emanates from the performer and transforms performance from abstraction to action. Not just the instrument for result, behavior is also the outcome in its own right and can be judged apart from the result (Brumbrach, 1988).

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. Lane (1987) defines a contract as a binding agreement between two or more parties for performing, or refraining from performing some specified act(s) in exchange for lawful consideration. Performance contracting as part of strategic management is, therefore, defined as a binding agreement between two or more parties for performing, or refrains from performing some specified act (s) over a specified period of time. As part of Performance Management, Performance Contracting is a central element of new public management, which is a global movement reflecting liberation management and market-driven management.

The main concern has been to improve external accountability and increase internal efficiency and effectiveness at the same time. In particular, performance contracting is seen as a tool for improving public budgeting, promoting a better reporting system and modernizing public management while enhancing efficiency in resource use and effectiveness in service delivery (Greiling, 2006). Simply put, performance based contracting allows public agencies to contract for results rather than contract for services.

## **1.1.2 Local Authorities in Kenya**

Local Authorities are the bodies controlling local governance in Kenya. Kenya has 175 LAs which are categorized into City Councils, Town Councils, Municipal Councils and County Councils. The Act spells out wide ranging powers and functions for LAs, where most of these functions undertaken by the LAs related to provision of public services, promotion of good governance and stimulation of good economic growth. Local authorities get their funding from the LAs transfer fund (LATF), road maintenance levy fund (RMLF) the contribution in lieu of rates (CILOR).

The main function of LAs is to improve the livelihoods of citizens through the provision of basic socio-economic and other services. Local government activities affect and influence the lives and livelihoods of all residents. Their strategic position makes them valuable and viable for providing effective and efficient services required by the community. By their design LAs are supposed to make cities and towns livable through provision of the services they are mandated to provide by the statutes that establish them. In the Kenyan case the establishment of LAs is covered by the Local Government Act cap 265 of the Laws of Kenya.

Services in LAs are provided by using two types of functions as specified by the Local Government Act Cap 265. These are mandatory and permissive functions. Mandatory functions are functions that are LAs must do under the law. Permissive functions are those that LAs may exercise at their own instance and others that they may perform subject to the approval of the Minister or subject to compliance with the law. Such

functions may require LAs to have organizational ability and financial capacity in order to carry out their functions. Most of the provisions allowed by the Local Government Act Cap 265 (as specified in sections 143-197) are essentially permissive.

In 2005/2006, five pilot LAs signed Performance Contracts and were evaluated in September, 2006. The process commenced with the establishment of a Performance Contracts Steering Committee in August 2003 and the issue of Legal Notice No 93. In 2006/2007, all the 175 LAs signed performance Contracts and were evaluated in October, 2007. The Local Government system in Kenya is divided into four categories (Gazette Notice, 1995). These are: city, municipal, county and town councils. Currently (year 2011) the Local Authority system has 175 LAs composed of one city council (Nairobi), forty five municipal councils, sixty seven county councils and sixty two town councils.

## **1.2 Statement of the Problem**

There are different views on what performance is. It can be regarded as simply the record of outcomes achieved. On the individual basis, it would then be the record of a person's accomplishments (Bernadine et al, 1995; Kane, 1996). On the other hand, it has also been suggested that performance is behavior and should be distinguished from the outcomes because the outcomes can be contaminated by systems prevalent in the organization (Campbell, 1990). Performance means both Behavior and result Behavior, emanates from the performer and transforms performance from abstraction to action. Not just the instrument for result, behavior is also the outcome in its own right and can be judged apart from the result (Brumbrach, 1988).

Performance Contract System originated in France in the late 1960s. It was later developed with great deal of elaboration in Pakistan and Korea and thereafter introduced to India (OECD, 1997). It has been adopted in developing countries in Africa, including Nigeria, Gambia, and Ghana. The endeavor to improve service delivery saw a number of performance improvement initiatives being put in place. These included emphasis on the adoption of private sector business management ethos in the lines of New Public Management principles. Studies on Performance management focusing mainly on specific management techniques in public sector in developed countries have been done. These studies focused on implementation of new performance measures where issues of employee involvement, management style and organization culture were found to be pertinent (Bitichi et al 2003).

Local Government sector has been associated with inefficiency, corruption and lack of accountability. This has led to eroded credibility and misapplication of resources in the sector. The sector is characterized by widespread misuse of funds due to lack of proper internal controls. The fundamental principal of performance contract is the devolved management style where emphasis is managed by outcomes rather than by process. It is therefore provided a framework for changing behaviors in the context of devolved mechanism structures. This called for paradigm shift in the Government.

Njiru (2007) looked at the management strategic change in the implementation of the Performance contracting in State Corporation while Choke (2006) studies the perceived link between strategic planning and performance contracting in Kenya. Kiboi (2006) looked at the management performance of performance contracting in State Corporation.

Others include Korir (2006) survey on the impact of Performance Contracting in East African Portland Cement; Odundo (2007) examined the extent to which Kenya Revenue Authority satisfied conditions for introducing and implementing the Performance Contracting. Kobia and Mohammed (2006) have explored the Kenyan experience with the Performance contracting and highlighted some challenges. Although public sector reforms have been embraced in Kenya, no attempt has been made by scholars and practitioners to assess the factors influencing effective implementation of performance contracting in LAs. To the best of my knowledge, no research has been done to address the factors influencing effective implementation of Performance Contracting among LAs in Kenya. Therefore, this study will seek to determine the factors that are associated with successful implementation of Performance Contracting among LAs in Kenya. This problem statement leads to the question: what factors are associated with the successful implementation of performance contracting?

### **1.3 Objective of the Study**

To establish the factors influencing implementation of performance contracts in local authorities in Kenya.

### **1.4 Significance of the Study**

The study is based on the need to determine factors that affect Performance Contracting in LAs in Kenya. The finding of this study will give an understanding of value addition on the impact of Performance Contracting and aid policy makers in designing guidelines towards attaining the set objectives. The study will narrow the existing gap on the

implementation process and challenges experienced in the implementation of Performance Contracts in LAs and public sector at large. In addition, it will benefit both organizations and their employees.

The Government will use the study in making informed policy decision since LAs' contribute to the development of economy through improving lives of beneficiaries and in line with Vision 2030. Information gathered through this study will help the Government to formulate policies beneficial in the regulation and protection of work force especially those who work in LAs. The general public who are the recipients of the services will receive quality results since performance contracting practice is customer focused and result oriented. In addition, the study will be of value to the government as LAs are the bodies controlling local governance in Kenya.

This study will accord Management the opportunity to analyze any shortcomings in the current system and propose ways that will promote buy-in on the part of staff members. It will provide staff with insights on some of the challenges that may be faced in the implementation of Performance Contracting and how to avoid them.

Research is an ever continuous process. As the research benefits from previous studies conducted by other professionals, any future research will benefit from this study either in advancing in the same research or in any related research phenomenon. The scholars and academicians may also use this project for further research and the findings will be an eye opener to researchers who desire to seek further knowledge in the area of Performance Contracting.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter examines the various factors that influence implementation of performance contracting in local authorities. The researcher took a critical analysis of what other writers have found out about the factors that influence performance contracting.

### **2.2 Performance Management**

The concept of performance management has been one of the most important and positive developments in the sphere of Human Resource Management in recent years. The phrase 'Performance Management' was first coined by Beer and Ruth in 1976. It became recognized, as a distinctive approach in mid 1980s, because of the growing realization that a more continuous and integrated approach was needed to manage and reward performance.

Performance management may be defined as a formal and systematic process, by means of which the job-relevant strengths and weaknesses of employees are identified, observed, measured, recorded and developed. Performance management provides the opportunity for the organization to evaluate and take stock of its human resources. It also provides information so that important decisions can be taken and gives feedback for further development of staff. The bottom-line reason for implementing a performance management system is to improve organizational performance. It gives management the opportunity for communication with staff, to clarify expectations and to take part in the

development of each staff member. For the employer, it gives the opportunity to discuss with employees their performance and career goals for the future (Doris, 1994).

### **2.3 Performance Contracting**

Performance Contracting is a continuous process of identifying, measuring, and developing the performance of individuals and teams and aligning performance with the strategic goals of the organization (Herman Aguinis, 2007). There are two types of Performance Contracts; the French system and the signaling system. The French system was introduced in France in 1967 and involves the identification and agreement on performance criteria at the beginning of the year and eventual evaluation at the end of the year. The signaling system is based on determination of how efficiently management can utilize a given level of capital stock. It aims at motivating management to maximize return on the capital stock. A primary evaluation criterion is developed to determine productivity improvement and the level of increase in public productivity. A performance contract is therefore signed at the beginning of the year and evaluated at the end of the year. French system is restrictive in that one is only able to point out whether a particular target was met or not. This creates difficulty in making an overall judgment regarding enterprise performance. The signaling system solves this problem through adoption of a 'five point scale' and 'criteria weight' resulting in calculation of a 'composite score' or an index of the enterprise performance (PSCS 2005).

### **2.4 Implementation of Performance Contracting**

Public-sector agencies are extending performance-based accountability into their relationships with the private sector through mechanisms such as performance-based

contracting for the delivery of services. Public sector reforms in Africa vary from one country to another. Oluwu (1999) is of the view that they can be classified into two broad types: the core and non-core elements. The core elements deal mainly with organizational restructuring, personnel management, budgetary and financial reforms. Organizational restructuring entails the reduction of government ministries, departments and agencies as well as strengthening of central coordinating organs. It also entails elimination of “nonessential functions, unnecessary paperwork and regulations” (Oluwu, 1999, p 5) and the reduction of excessive red tape.

Even though public sector reforms have been undertaken in countries throughout the world, Hou et al (2003, p 296) hold that, “Efforts to improve performance have foundered on different shoals”. According to Hou et al (2003), the main difficulty is that of “determining what improved performance would really be and which trade-offs might be acceptable to attain it”. They go further to argue that despite the fact that improved efficiency and productivity are usually stated as the main goals of the reforms, “linking improvement in either one to specific changes in government – or to attributes of government - is difficult” (Hou et al, 2003, p 296). Hence, questions such as: “Has performance improved? and “Why” are rarely answered to the satisfaction of all stakeholders. Shirley (1998) cite causes of failure of performance contracting to erosion of trust, lack of both intrinsic and extrinsic motivation; information asymmetry; insufficient commitment of both parties to the contract; poor incentive; imposition by governments, no prior negotiations and contract terms willingly agreed to; managers who have various stakeholders which include politicians, which then bring about conflicting objectives.

It is the quest for efficiency and effectiveness within the public sector that has without any doubt resulted in performance management systems being embraced in both the developed and developing countries. As Davies (1999, p 150) observes, “That governments should apply themselves to continuously improving their performance, particularly with respect to the management of public funds and the stewardship of public assets, appears now to be a generally accepted principle of good governance” Similar sentiments were expressed by Behn (2003, p 586) when he states that, “Everyone is measuring performance”.

The need to monitor and manage performance within public organizations has been emphasized by Wholey and Hatry (1992, p 604) when they state that, “elected officials and citizens are entitled to regular reports on the performance of major public programs – not only information on program costs and the amount of work completed but also information on the quality of service delivery and on program outcomes” . Wholey and Hatry (1992, p 605) go further to argue that, “In the absence of adequate attention to service quality and program outcomes, government too often becomes wasteful, ineffective, and unresponsive – and government credibility sinks ever lower”.

The implementation of PC was expected to produce positive outcomes in the public service, through definition of goals, provision of incentives and outcomes such as improved performance of government agencies, increased transparency in operations and resource utilization, better governance practices, increased accountability for results (Trivedi 2007), institutionalization of a performance oriented culture, reduced reliance on

exchequer (PCSC 2005). The main purpose of the Performance Contracting according to Armstrong and Baron (2004) is to ensure delivery of quality service to the public in a transparent manner for the survival of the organization.

At the beginning of every financial year, criteria weight and criteria value selection is done respectively for all government agencies including negotiation of performance targets. Performance evaluation is done at the end of the financial year (Trivedi 2007) and the achievements of the government agency are then compared with the criteria values to determine the composite score at the end of the financial year. All government agencies are required to submit quarterly performance reports for each quarter within 30 days after the close the quarter to the respective parent ministry, the Treasury and the inspectorate of state corporate detailing actual performance against targets negotiated between the government and the agency (PCSC 2005).

## **2.5 Factors influencing implementation of Performance Contracting in Local Authorities in Kenya**

It has long since been established that no single factor could be seen as singularly influencing Performance Contracting system to such an extent that it can be seen as the secret key to successful implementation. Considering the factors influencing performance contracts and the behaviors based on such factors, Atkinson and Birch is quoted by Beck (2000) to have argued that no single behavior can be taken in isolation from other behaviors. Similarly, the factors influencing Performance contracting in Local Authorities do so in combinations, often fluctuating between the different levels of

influence. Accordingly, organizations are beginning to implement Performance Contracting system that reflects the new shape of the organization and its emphasis on integration of work, multidimensional influence, and flexible jobs (Mohrman & Cohen, 1995). Some factors are discussed below.

### **2.5.1 Alignment with Vision**

The alignment of individual goals and organizational goals is one of the important aspects for consideration in the development of a performance management system (Senge et al, 1995; Pettigrew, 2002; Viedge, 2003). Public service employees are motivated by a range of factors, including opportunities for skill development and indications of organizational attention to their long term careers. The need for alignment and integration in Performance Contracting is crucial ( Bititci et al. 1997; Ghalayini et al, 1997). This can be vertical and horizontal alignment, which relates to the integration, linkage and cascading of Mission, Vision, and Strategy and a thorough process from supplier to customer; or organizational systems alignment, which relates to the integration of a Performance Contracting system with other key management systems such as planning and budgeting and information systems.

### **2.5.2 Leadership**

Leadership is critical factor in influencing Performance Contracts in LAs. According to Van Wart (2003), effective leadership provides higher-quality and more efficient goods and services; it provides a sense of cohesiveness, personal development, and higher levels of satisfaction among those conducting the work; and it provides an overarching sense of direction and vision, an alignment with the environment, a healthy mechanism for

innovation and creativity, and a resource for invigorating the organizational culture. For successful institutionalization of Performance Contracting, such leadership attributes can play a pivotal role in mobilizing and gaining the support of the staff members. Contingency theory (Rumelt, 1991) shows that there is no single best approach to managing people and organizations. This theory contends that there is no one leadership style that is best in all situations because leaders' effectiveness is always dependent on how well the leadership style fits the situation.

A lack of top management support almost guarantees that integrative efforts are superficial and ineffective (Fawcett et al, 2006). According to organizational support theory, if employees perceive more support from the organization, they are likely to show greater attendance and efforts, which in turn, lead to better performance (Eisenberger et al., 1986). Eisenberger et al. (1986) found that employees reciprocated their Performance efforts by reduced absenteeism.

Washington and Hacker (2005) state that it is important for senior government officials to make sure that people tasked with the responsibility of leading change have a proper and detailed understanding of change. In a study that they conducted in 2004 in Botswana, Washington and Hacker found that respondents who understood change were less likely to resist organizational change, were excited about change and less likely to think that change will fail. Those who did not have a proper understanding of PMS faced difficulties leading their subordinates and were more likely to believe that it will fail.

### **2.5.3 Organizational Culture**

Organizational culture holds profound implications upon those organizations who wish to increase their effectiveness through organizational learning. Burke (1985) quotes Schein who argued that organizational culture is the basic assumptions and beliefs that are shared by members of an organization, that operate unconsciously, and that define in a basic taken for granted fashion an organizations view of it self and its environment. These assumptions and beliefs are learned responses to a group's problems of internal integration. They come to be taken for granted because they solve those problems repeatedly and reliably. This deeper level of assumptions is to be distinguished for the 'artifacts' and 'values' that are manifestations or surface levels of culture, but not the essence of the culture (Burke, 1992).

Culture is a set of assumptions that members of an organization share in common. Implementation of Performance Contracting will be concerned with adjustment in the structure, employees, systems and styles of doing things in order to accommodate needs for the strategy (Pearce and Robinson, 2007). Hence, for successful Performance Contracting implementation to be effective there should be a fit between the new changes and the organization's culture. When persons within organizations operate in an unconscious manner due to the organizational culture, one can readily see how attempting to develop performance contracting in a suspicious, distrusting environment could be highly difficult.

Developing organizational culture that prizes learning, growth, and knowledge sharing must be tackled in order to promote effective Performance Contracting. Subtle and undermining forces in an organizational culture can sabotage attempts at improving components of the organization, or even attempts at organizational culture change. Leaders must be in touch with the pulse of their organizational culture prior to or while seeking to implement Performance Contracts. According to Owusu (2005, p 5), the failure of various Public Sector Reforms justifies the need to adopt a different approach that is “flexible enough to accommodate country-specific constraints on the organizations”. Organizational cultures create a unique identity that distinguishes one agency apart from another (Stinchcomb, 2007). These personalities are the combination of traits such as the values, norms, and the outward tangible signs and behaviors of the members of that organization (McNamara, 2003).

As the environment around an organization evolves, the culture of that organization will determine whether or not it will be able to successfully evolve and thrive. (Stinchcomb, 2007) argued that as the organization is challenged with issues such as downsizing, restructuring, reducing costs, prioritizing projects, defining mission improving Performance goals, or any other strategic change, it is the culture of that organization that will affect the likelihood that intended change will succeed.

To avoid the pitfalls associated with a lack of agreement, organizations must develop a culture that creates an atmosphere of agreement through open communication and clearly defined goals. (Tierney, 2007) contends that lack of evaluative criteria can be a

significant impediment to organizational reform. Organizations must assume a culture that is willing to identify improving Performance benchmarks for determining the effectiveness of implemented change. According to Tierney, organizations also risk failure when attempting to achieve reform if the members of that organization fail to articulate changes to the rest of the organization.

#### **2.5.4 Involvement of Employees**

Researchers (Bernardin & Beatty, 1984; Boswell & Boudreau, 2000) stated that criteria, such as the degree to which raters and ratees believe in fairness, equity, and utility of performance evaluation, represent better predictors of rating validity than do psychometric errors such as halo and leniency. Waldman (1997) was critical of the fact that performance management typically designs evaluation procedures with little or no input from users. Mohrman, Resnick-West, and Lawler (1989) argued that the best way to ensure the acceptability of a performance evaluation design is to let users participate in creating it. In particular, allowing users including raters and ratees to participate in setting Performance Contracting targets. (Likert, 1976) observed that the amount of effort i.e. manual or mental energy that a person is prepared to expend on a job to reach a certain level of performance varies according to incentive and motivation to the employee.

#### **2.5.5 Change Management**

The reasons for the failure of many change initiatives can be found in resistance to change. (Lawrence, 1954). There is a consensus around the benefits of everyone participating in the development of performance contracting measures. Involvement in the selection and definition of measure can reduce employees and managers' resistance to

Performance Contracting system. The general aim of organizational change is an adaptation to the environment (Barr, Stimpert and Huff, 1992) or an improvement in performance.(Boeker, 1997)

Resistance to change introduces costs and delays into the change process (Ansoff, 1990) that are difficult to anticipate (Lorenzo, 2000) but must be taken into consideration. Resistance has also been considered as a source of information, being useful in learning how to develop a more successful change process (Beer and Eisenstat, 1996). Undoubtedly, resistance to change is a key element in Performance Contracting and should be seriously considered to help the organization to achieve its objectives. Performance targets should be negotiated and not imposed arbitrary from top government' officers. The managers should be left free to manage their LAs within agreed parameters once the performance target have been set; performance should be used as the end of the year systematically against targets negotiated at the beginning of the year.

### **2.5.6 Working Conditions**

Working conditions may contribute to disillusionment of workers (Andisi, 2006). Performance Contracting will thrive when management provide a conducive working environment. Lack of effective channels though which employees can voice their grievances, with the hope of redress can contribute to lack of achieving the set performance targets. Shirley and Xu (1997) argue that Performance Contracting assumes that government objectives can be maximized, and performance improved, by setting targets that take into account the constraints place on managers. (OECD 1999) observer

that a performance contract is another management tool that ensures correlation between planning and implementation; coordination between various government agencies; an enabling public policy environment for other down stream reforms; and a fair and accurate impression about public enterprise performance.

### **2.5.7 Staff Motivation**

Employee motivation is critical in influencing Performance Contracting system in any organization. Motivating and rewarding good performance for individual are key success to effective strategy implementation (Shirely 1983). Accordingly to Cummuins and Worley (2005), organizational rewards are powerful incentives for improvement employee and work group performance. It can also produce high level of employee satisfaction. In Performance Contracting, reward systems interventions are used to elicit and maintain desired levels of performance. To induce greater motivational force, employers need to provide promising links between performance and reward systems and offer awards to their employees value (Vroom, 1964). It could be argued that as employees are provided with performance incentives (for instance, bonuses, wage raises, and promotions), they will be motivated to strive for excellent service. There is need to reward outstanding work which is recognized from the evaluation reports. The top performers are to be rewarded in various ways ranging from recognition to award of medals and other material endowments (Armstrong & Baron, 2004; Armstrong, 2006).

Robbins (2003: 78 – 83) emphasizes the importance of employee job satisfaction as a factor influencing, amongst others, employee work performance. He argues that “happy workers aren’t necessarily productive workers”. This argument is in line with Poisat’s

deduction (2006: 26) “that satisfied employees are not necessarily productive employees”. Robbins (2003), however, suggests that the opposite might be more accurate – that productivity will probably lead to satisfaction. Robbins (2003) observes that a dissatisfied employee can still be a loyal employee where such an employee will be passively waiting for conditions to improve. In addition, such an employee can also express their dissatisfaction by terminating their relationship with the organization, actively making their opinion heard in an attempt to improve matters, or by passively allowing conditions to worsen through neglect (Robins 2003).

### **2.5.8 Training and Development**

The Performance Management system and an organization’s training and development initiatives should co-exist in a reciprocal relationship (Mello. 2006: 446). The desired outcomes of the training and development program should be incorporated into the Performance Contracting management system. At the same time, the Performance Contracting system is responsible to provide data with regard to areas that need development through training intervention. Employees at all levels need to learn the principles of the Performance Contracting management system, its measures, tools and procedures (Frigo and Krumwiede, 1999; Maisel, 2001; Kaplan and Norton, 2001). Human Resources need to continuously guide line managers in following and doing what is expected of them in the entire Performance Contracting management process. Denhardt and Denhardt (1999) describe how effective local government managers verify needs for change through "listening and learning" and then communicate those needs in ways that build support for change.

### **2.5.9 Rewards**

Rewards, as a factor influencing Performance Contracting is considered to be applied in the form of remunerative compensation and relational rewards. Negative sanctions such as withholding of financial intrinsic reward for poor performance are necessary to encourage managers' effort (Pearce and Robinson 2007). Employees no longer necessarily desire secure life time employment, with steady promotion opportunities, they now seem to favour the opportunity to give their best to the organization and to be rewarded for their contribution through effective and fair reward strategies (Bartlett & Ghoshal, 1994; Mullins, 2002). Hillgren, J. S., & Cheatham, D. W. (2000) contends that, if developed and implemented properly, performance management systems drive employees to engage in behaviors and achieve results that facilitate meeting organizational objectives.

### **2.5.10 Feedback**

Performance appraisal feedback is key to effective Performance Contracting system. According to Cummings and Worley (2005), Performance management in an integrated process of defining, assessing and reinforcing employee work behavior and outcomes. Thus Performance appraisal represents an important link between goal setting and reward systems. Managers should do three things well in the process of performance management. These are: to define performance through goal setting, measures and assessment, facilitate performance by identifying obstacles; and encourage performance by providing sufficient rewards (Cummings and Worley 2005).

The core function of the Performance Contracting is to provide feedback to staff members on their performance. Feedback should occur followed by review and evaluation of the Performance Contracting system. Brown & Armstrong (1999) raise various issues relating to the evaluation of a performance management system. They indicate that it is important that what is being managed can actually be measured in a consistent and accurate manner. So it might be useful to periodically check the Performance Contracting measurements are accurate and useful to the organization. The reason for feedback would be to encourage performance, which directly leads to the reaching of individual goals, while underperformance or incorrect performance can be rectified or dealt with appropriately.

The performance management system is designed to be operated as a continuous feedback loop, as per Bevan & Thompson and English (Price, 2000), which flows from the vision and mission statement into team and then individual objectives. Signing Performance Contracts is not enough to convince the members of an organization of the need for change is not enough to bring about actual change. The new idea or vision must be transformed into a course of action or strategy, with goals and a plan for achieving it (Abramson and Lawrence 2001 This strategy serves as a roadmap for the organization, offering direction on how to arrive at the preferred end state, identifying obstacles, and proposing measures for overcoming those obstacles.

### **2.5.11 Provision of Adequate Resources**

Failure to provide adequate resources to implement Performance Contracting leads to feeble efforts in the implementation process. Boyne's (2003) review of research, for

example, found that resources were one of the important factors for improving public services. Borins (2001) found that in innovative organizations at all levels of government, leaders invested resources in innovation. The co-ordinating activities include staff recruitment and deployment planning the Performance Contracting activities, obtaining and allocating resources for it, establishing such routines as times of work, and decision-making, including the delegation of decisions, discretion and responsibility. Lack of resources is an obstacle to team functioning (Adams and Bond, 2003).

The need to succeed in implementing Performance Contract is critical, as it benefit the organization and a country as a whole. According to the Performance Contracting and Head of public service (2006) the benefits of Performance Contract have been manifested in increased productive and profitability; visible efficiency gains especially in disbursement of funds in ministry; efficiency in service delivery and high quality government initiated programmes; an emerging radical change attitude towards work and improved work ethics in the public service, increased accountability for result and intensification of strategic focus by public service manages.

### **2.5.12 Staff Perception**

One of the main reasons for undertaking continuous review and evaluation of a performance management system is to ensure that staff perceives the process to be fair (Rademan & Vos, 2001). A common criticism of performance management systems is that they are perceived to be unfairly applied. It has been noted that “individuals are most likely to trust and cooperate freely with systems - whether they themselves win or lose by those systems - when fair process is observed” (Chan & Renée, 1997: 70). Chan & Renée

(1997) conclude that having fair process within an organization shows respect and value for individual employees. They consider three principles of fair process – in the form of engagement, explanation and expectation clarity.

Heider (1958) proposed in attributions theory that what people perceived and believed about what they saw dictated how they would act, even if their beliefs about what they perceived were invalid. This theory is critical to Performance Contracting because perceived causes of behavior may influence managers' and employees' judgments and actions. If a manager attributes an employee's poor performance to a lack of effort, then the outcome is likely to be negative for that employee; he or she may receive a poor performance appraisal rating or even be terminated from the job. Conversely, if a manager perceives that an employee's poor performance is due to a lack of skill, the manager may assign the employee to further training or provide more instruction or coaching. Making an inaccurate judgment about the causes of poor performance can have negative repercussions for the organization.

In Kenya, Opiyo (2006) analyzed the implementation of PCs and found out that Performance Contracts in some areas have proven to be more successful than in others. This depended inordinately at the initial stages, on the reception and perception of those directly involved with its implementation. Thus, the system should be improved both in terms of the way implementers view it alongside the organizational evolutionary processes. Research has included measures of employee attitudes toward performance appraisal and system acceptance and rater and rate satisfaction in the appraisal process (Roberts, 1990).

## **CHAPTER THREE: RESEACH METHODOLOGY**

### **3.1 Introduction**

This chapter presents how the researcher carried out the study of the factors influencing implementation of performance contracts in local authorities in Kenya. It consists of research design, sample selection of the study; data collection instruments, data collection procedures and concludes with data analysis.

### **3.2 Research Design**

The research design was a cross sectional survey design. This research design allowed for contact with otherwise inaccessible participants. Survey studies are normally characterized by systematic collection of data from members of a given population through questionnaires. They also follow procedures such as indentifying target population, development of questionnaires and field test, selection of a relevant sample, administration of questionnaires and descriptive analysis of data using tables, means, frequencies and percentages (Ogula, 1998). When all items of the population are covered, no element of chance is left and highest accuracy is obtained. Cooper and Emory (1985) contend that surveys are more efficient and economical than observations.

### **3.3 Population**

The population is all Local Authorities Kenya which are 175 in Kenya drawn from four categories namely, city, municipal, county and town councils.

### **3.4 Sample of the Study**

The sampling of the study was made up of all 175 LAs selected by their category. Stratified random sampling technique was used to ensure the sample is representative of all LAs. This will be done to avoid biasness. The sampling was stratified into four stratus

and was picked from each of category. The respondents were randomly selected based on their categories.

### **3.5 Data Collection**

The study used both primary data. The primary data was collected using a semi-structured questionnaire. A questionnaire is favored as the data collection over other methods because of 'drop and pick' method where the respondent can fill the questionnaire at their own convenient time. In addition, the questionnaire will include structured (closed-ended) and unstructured (open-ended) questions. The questionnaire is divided into two sections: Section I is introduction and general information, Section II is how the factors influence performance contracting. The target respondents will be Town Clerks.

### **3.6 Data Analysis**

The data was analyzed by the use of descriptive statistics and factor analysis to summarize and relate variables were attained from the administered questionnaires. The data was classified, tabulated and summarized using descriptive measures, percentages and frequency distribution tables while tables and graphs was used for presentation of findings. However, before final analysis is performed, data was cleaned to eliminate discrepancies and thereafter, classified on the basis of similarity and then tabulated.

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

## **4.1 Introduction**

This chapter provides an analysis of data collected from the field. The results are presented in tables to highlight the major findings. They are also presented sequentially according to the research questions of the study. Mean scores and standard deviations factor analysis was used to analyze the data collected.

The research was conducted on a sample of 81 respondents from all LA to which questionnaires were administered. 51 questionnaires were returned duly filled in making a response rate of 63%, which is an adequate response rate for statistical reporting. Mugenda and Mugenda (1999) stated that a response rate of 50% and above is a good response rate. The study used Likert scale in collecting and analyzing the data whereby a scale of 5 points were used in computing the means and standard deviations. These were then presented in tables as appropriate with explanations being given in prose.

## **4.2 General Information**

This section presents an analysis of the respondents' general information. The specific characteristics were the category of the local authority and the respondent's position.

### 4.2.1 Category of Local Authority

An analysis of the category of local authority was performed in a bid of establish the categorization. The findings show that the respondents were City, Municipal, town and county councils as 1, 20, 16 and 14 respectively. This shows that majority of local authority were municipalities. There is only one city council in only on in Kenya. All categories in the survey were covered as shown in the table below:

**Table 4.1 Category of Local Authority**

Local Authority	Frequency	Percentage
City council	1	1.96%
Municipal council	20	39.2%
Town council	16	31.4
County council	14	27.5
	51	100

Source: Researcher (2011)

### 4.2.2 Position Held by Respondents

The position held by the respondents was sought to establish the composition of respondents according to their position. The analysis show that the respondents were mainly chief officers 23 (45%) and rest were Town clerks 14 (27%) and Town treasurer 14 (27%). The officer in charge of performance contracts in local authorities are Town Clerks, Town treasurer and Chief officers. From these findings, it is clear that the researcher got the right category of respondents. The results are shown below:

**Table 4.2 Position held by respondents**

Position of respondents	Frequency	Percentage
Town clerk	14	27%
Town treasurer	14	27%
Chief officers	23	45%
<b>Respondents</b>	<b>51</b>	<b>100</b>

Source: Researcher (2011)

### 4.3 Factors influencing Performance Contracts in Local Authority

This section analyses data on the factors that influence implementation of performance contracting in local authorities in Kenya. The analysis was done on likert scale with a scale of 1-5 where 1 is strongly disagree, 2 – disagree, 3 – neither agree or disagree, 4 is agree and 5 is strongly agree. This table below presents the results on the mean scores and standard deviation (descriptive statistics) on factors influencing performance contracts in local authorities in Kenya.

**Table 4.3: Descriptive Statistics of indicators**

Indicators	N	Mean	Std. Dev.
<b>Vision and mission</b>			
The alignment of individual goals and organizational	51	4.68	.677
Performance contracting flows from the vision	51	4.47	.924
<b>leadership</b>			
leadership is critical in providing personal development	51	4.78	.576
Leadership attributes play a pivotal role in mobilization	51	4.49	.987
<b>Organizational culture</b>			
Organizational culture holds profound implication	51	4.41	.852
Distrusting environment influences performance	51	4.28	.948
Environment around an organization determines success	51	4.44	.674
Organizations must create an open atmosphere	51	4.58	.697
<b>Involvement of employees</b>			

To ensure the acceptability of a performance evaluation let users participate	51	4.74	.486
<b>Change management</b>			
Senior government officials should have a proper understanding of change management	51	4.72	.493
Resistance to change introduces costs and delays	51	4.26	.876
Resistance to change leads to failure	51	4.19	.916
Managers should be left free to manage performance target	51	4.30	1.01
<b>Staff perception</b>			
Performance management systems is perceived to be unfairly applied	51	4.27	.960
A fair process within an organization shows respect and value for individual employees	51	4.29	.756
<b>Working conditions</b>			
Working conditions may contribute to disillusionment of workers	51	4.50	.784
Performance contracting thrives when management provide a conducive working environment	51	4.47	.783
Lack of effective channel can lead to lack of achieving the set performance targets	51	4.45	.878
<b>Staff motivation</b>			
Motivating and rewarding good performers is key to strategy implementation	51	4.54	.672
Organizational rewards are powerful incentives for employees	51	4.52	.673
<b>Training and development</b>			
The performance contracting system should support training and development initiatives	51	4.62	.631
Employees need to learn the principles of the performance contracting	51	4.64	.743
Human resources should guide line managers in performance contracting process	51	4.43	.728
<b>Rewards</b>			
Negative sanctions are necessary to encourage managers	51	4.15	.987
Employers need to provide promising links to reward performance	51	4.49	.758
<b>Performance feedback</b>			
It is useful to check the performance contracting measurements	51	4.60	.801
Feedback encourage performance	51	4.70	.609
<b>Provision of adequate resources</b>			
Failure to provide resources leads to feeble effort in the implementation process	51	4.64	.626
Lack of resources is an obstacle to performance contracting	51	4.72	.695
Valid N (listwise)	51	4.45	0.765

Source: Researcher (2011)

## **Vision and Mission**

From the above analysis, the respondents strongly agreed that the factors that influence the implementation of performance contracting in local authorities are the alignment of individual goals with a score of 4.68. On the other hand, 4.47 of the respondents believe that designing a performance contracting system should flow from vision and mission.

## **Leadership**

The respondents strongly agreed that leadership is critical in providing personal development with a score of 4.78. On the other hand, respondents strongly agreed that leadership attribute plays a pivotal role with a score of 4.49.

## **Organizational Culture**

The results indicated that the respondents strongly agreed that organizational culture holds profound implication upon that organization with a score of 4.41. According to the survey, respondents believe that a distrusting environment can influence performance with a score of 4.28.

## **Involvement of Employees**

The survey reveals that most respondents strongly agreed that involvement of employees is important with a score of 4.74.

## **Change Management**

When asked if senior managers should be tasked with the responsibility of leading change, 4.72 of the respondents strongly agreed. On the other hand most respondents agreed that resistance to change introduces cost and delays with a score of 4.26. The survey findings show that most respondents did not agree or disagree with the notion that resistance to change leads to failure with a score of 4.19.

### **Staff Perception**

The survey findings show that most respondents agreed that most performance management system is perceived to be unfairly applied with a score of 4.27. Similarly most respondents strongly agreed that a fair process within an organization shows respect and value for individual employees with a score of 4.29.

### **Working Conditions**

The research findings show that most respondents strongly agreed with the notion that working conditions may contribute to disillusionment of workers with a score of 4.50. On the other hand, most respondents strongly agreed that performance contracting will thrive when management provide a conducive working environment with a score of 4.47. In addition, most respondents also strongly agreed with the notion that a lack of effective channel can lead to lack of achieving targets with a score of 4.54.

### **Staff Motivation**

When asked the importance of motivation and rewarding good performance, 4.45 of the respondents strongly agreed with this indicator. On the other hand, the respondents strongly agreed that organization rewards are considered powerful incentives for employees with a score of 4.52.

### **Training and Development**

The research findings show that most employees strongly agreed with the notion that performance contracting should support training and development with a score of 4.62. On the other hand, most respondents strongly agreed that employees need to learn the principles of performance contracting with a score of 4.64.

## **Rewards**

The survey also reveals that that most of the respondents agreed that negative sanctions are necessary to encourage performance with a score of 4.15. On the other hand, respondents strongly agreed that employers should provide links between reward and performance with a score 4.49.

## **Performance Feedback**

Accordingly to the survey, most respondents strongly agreed with the notion that it is useful to check the performance contracting measurements with a score of 4.60. The survey also reveals most respondents agreed that feedback encourages performance with a score of 4.70.

## **Provision of Adequate Resources**

Respondents strongly agreed with the notion that failure to provide resources can lead to feeble effort at the implementation stage with a score of 4.64. On the other hand, respondents also strongly agreed that lack of resources is an obstacle to performance contracting process with a score of 4.72.

The above findings show that respondents were generally agreed to the fact that the above factors influence implementation of performance contracting in varying extent between the moderate and high evident from their mean which were all above 4. The respondents' level of agreement scored a mean of between 4.15 being the lowest and a mean of 4.74 being the highest. The overall mean score was 4.45 indicating that that there was a general agreement on the factors that influence implementation of performance contract in local authorities in Kenya.

An analysis of the standard deviation shows that there was a general consensus on the factors that influence implementation of performance contracting with a standard deviation ranging from 0.486 to 0.987. The study also reveals that there was only *one* indicator with standard deviation of over 1.0.

#### 4.4 Reliability Test

**Table 4.4 Summary of the Measurement Reliability (Cronbach's Alpha)**

Cronbach's Alpha	N	Cronbach's Alpha Based on Standardized Items	No of Items
.855	10	.100	12

Source: Researcher (2011)

Reliability is a fundamental issue in any measurement scale. Scale reliability is considered as the proportion of variance attributed to the true score of the latent construct (DeVellis, 1991; Gable, & Wolf, 1993). It is usually measured by internal consistency reliability that indicates the homogeneity of items comprising a measurement scale. Internal consistency gives the extent at which items in a model are inter-correlated. Thus, high inter-item correlations explain that the items of a scale have a strong relationship to the latent construct and are possibly measuring the same thing. Usually, the internal consistency of a measurement scale is assessed by using Cronbach's coefficient alpha. It is generally recommended that if a measurement scale having a Cronbach's coefficient above 0.50 is acceptable as an internally consistent scale so that further analysis can be possible. Since alpha value is slightly above 0.5, the study instruments yielded fairly reliable data for this research, thus factors influencing implementation of performance contracts in local authorities in Kenya was reliable and valid.

From the findings, the alpha value was above 50% meaning that the data from the questionnaire was reliable and accurate. Hence, based on this finding further data analysis were commenced.

#### **4.5 Factor Analysis**

Factor analysis has been used because of the concern of decomposing the information content in a set of variables into information about an inherent set of latent components/factors. This assisted in reducing a number of variables into fewer factors which are of similar characteristics. The analysis was carried out and the results have been presented in terms of: KMO and Bartlett's Test, Scree Plot, Total Variance Explained /Eigen values, Initial Component Matrix and Rotated Component Matrix (Varimax).

**Table 4.5: Component Matrix**

<b>Component Matrix</b>			
	<b>Component</b>		
	1	2	3
Rewards	.849	.450	.019
Working Conditions	.825	-.206	.540
Provision of Adequate Resources	.801	-.263	-.443
Change Management	.767	.809	.018
Performance Feedback	.749	-.027	-.126
Staff Motivation	.695	.129	.194
Staff Perception	.687	.164	-.084
Training and Development	.608	.033	-.538
Leadership	.575	-.161	.370
Vision and Mission	.526	.120	.132
Organizational Culture	.481	-.259	-.150
Involvement of Employees	.192	-.228	.089

Extraction method: Principal Components Analysis

a. 3 Components Extracted

The rotated component matrix is to transform the complicated matrix (initial matrix into simpler one). The purpose of rotation is to achieve a simple structure i.e. we would like each factor to have non zero loading for only some of the variable so that we can easily interpret the factors. A factor loading of 0.5 has been used to determine the variable belonging to each factor.

The findings showed that the respondents choose reward at 84% as the highest value and the involvement of employees at 19%. This means that out of the 12 indicators identified in the questionnaire, 10 indicators were scored above the average of 50%.

**Table 4.6: Communalities**

<b>Factors</b>	<b>Initial</b>	<b>Extraction</b>
Involvement of Employees	1.000	.776
Rewards	1.000	.750
Organizational culture	1.000	.713
Performance Feedback	1.000	.679
Working Conditions	1.000	.673
Vision and mission	1.000	.638
Provision of Adequate Resources	1.000	.586
Staff motivation	1.000	.524
Change management	1.000	.519
Training and development	1.000	.511
Leadership	1.000	.434
Resources	1.000	.432

Extraction Method: Principal Component Analysis.

Source: Researcher (2011)

The finding on Communalities on each variable's variance that can be explained by the factors with principal factor axis factoring, the initial values on the diagonal of the correlation matrix are determined by the squared multiple correlation of the variable with the other variables. Extraction column indicate the proportion of each variable's variance that can be explained by the retained factors. Variables with high values are well represented in the common factor space that is Involvement of Employees.776, while variables with low values are not well represented Leadership .434. These are reproduced variances from the factors extracted.

This findings show that involvement of employees is a very important in influencing implementation of performance contract in local authorities in Kenya. It is closely followed by rewards, organization culture, and performance feedback and working conditions. Other important factors vision and mission, provision of adequate resources,

staff motivation, training and development, effective leadership and provision of adequate resources.

**Table 4.7: Total Variance Explained**

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	5.122	42.682	42.682	5.122	42.682	42.682
2	1.169	9.738	52.420	1.169	9.738	52.420
3	1.024	8.535	60.955	1.024	8.535	60.955
4	.948	7.903	68.859			
5	.724	6.034	74.893			
6	.707	5.895	80.788			
7	.642	5.349	86.136			
8	.529	4.412	90.548			
9	.359	2.995	93.544			
10	.311	2.594	96.138			
11	.239	1.993	98.131			
12	.224	1.869	100.000			

Extraction Method: Principal Component Analysis.  
 Source: Researcher (2011)

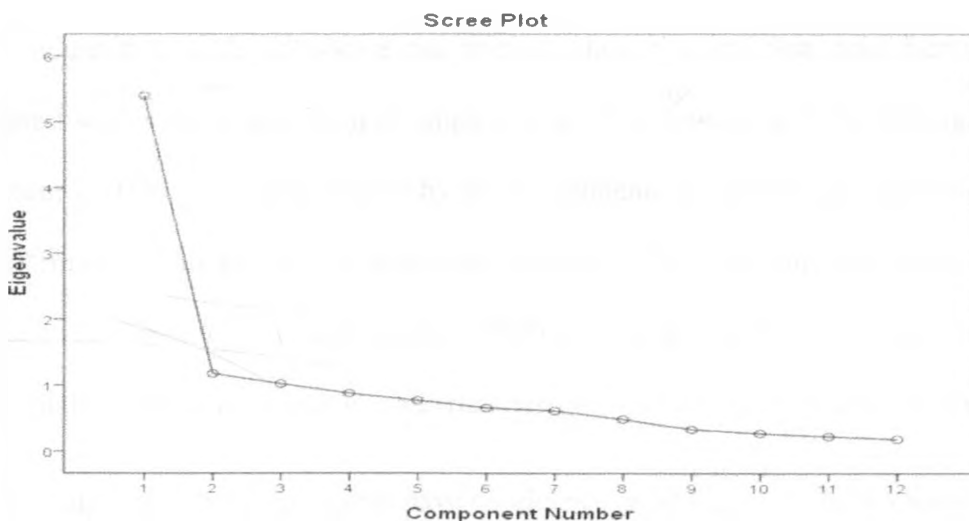
Eigenvalues are the variances of the factors. The variables are standardized, which means that the each variable has a variance of 1, and the total variance is equal to the number of variables used in the analysis, in this case, 12.

The first factor account for the most variance (and hence have the highest eigenvalue), and the next factor will account for as much of the left over variance as it can, and so on as shown in table 4.5. Hence, each successive factor will account for less and less variance. Cumulative column contains the cumulative percentage of variance accounted for by the current and all preceding factors. For example, the third row shows a value of 60.955. This means that the first three factors together account for 60.955% of the total

variance. Extraction Sums of Squared Loadings indicate the number of rows in this panel of the table correspond to the number of factors retained. In this case 3 factors were retained, so there are three rows, one for each retained factor. Rotation Sums of Squared Loadings - The values in this panel of the table represent the distribution of the variance after the Varimax rotation. Varimax rotation tries to maximize the variance of each of the factors, so the total amount of variance accounted for is redistributed over the three extracted factors.

These findings show that involvement of employees, rewards and organizational culture accounted for over 50% of the total variance. This means that respondents considered the three indicators as critical in influencing implementation of performance contracts in local authorities.

**Figure 4.1 Scree Plot**



Source: Researcher (2011)

The Scree plot graphs the eigenvalue against the factor number. These can be seen in the first two columns of the table immediately above. From the third factor onwards the line is almost flat, meaning the each successive factor is accounting for smaller and smaller amounts of the total variance.

**Table 4.8: Factors influencing implementation of performance contract in Local Authorities**

The study shows that respondents rated the following factors highest in influencing implementation of performance contracts in local authorities in Kenya.

<b>Factors</b>	<b>Percentage</b>
Involvement of employees	77%
Rewards	75%
Organizational culture	71%

Source: Researcher (2011)

As indicated in table 4.8 above, the findings show that the first three factors with the highest scores are involvement of employees at 77%, rewards at 75% and organizational culture at 71% were rated highly by the respondents as influencing implementation of performance contracts in local authorities in Kenya. The study findings is consistent with Mohrman, Resnick-West, and Lawler (1989) who argued that the best way to ensure the acceptability of a performance evaluation design is to let users participate in creating it.

The study noted that respondents have confidence in all the other factors identified in the study. Overall, there was high optimism among respondents regarding the use of performance contracting as a means of improving service delivery in Local Authorities.

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

## **5.1 Introduction**

This chapter presents the summary of key data findings, conclusion drawn from the findings highlighted and recommendation made thereto. The conclusions and recommendations drawn are in the quest of addressing the research question and achieving the research objective which was to explore the factors influencing implementation of performance contracts in local authorities in Kenya.

## **5.2 Summary of Findings**

This study sought to investigate the factors that influence implementation of performance contracts in local authorities in Kenya. Factors analysed with regard to implementation included vision and mission, leadership, organisational culture, involvement of employees, change management, staff perception, working conditions, staff motivation, training and development, rewards, performance feedback and provision of adequate resources.

Based on the data analysed and the results presented in chapter four, the factors that influence implementation of performance contracts in local authorities are similar across the four categories. These are city, municipal, country and town councils. It may be noted that each sub group evaluated, the twelve factors influence implementation of performance contracts in different extents. Regarding vision and mission, the alignment

of individual goals plays a significant role. Effective leadership plays a pivotal role in implementation of performance contracting. With regard to organizational culture, it was noted that a distrusting environment can negatively influence performance contract. The analysis with regard to involvement of employees to ensure acceptability was rated the highest among all the other factors. This finding is consistent with linking pay to performance that introduces equity and consistency in pay structures and enables the firm to attract more able workers (Morgan, 1998). On change management, the outcome of the study indicated that senior managers should be tasked with the responsibility of leading change. However, the study also noted that there was a mixed reaction on the notion that change leads to failure of performance contracting. Among all the twelve factors analysed, this factor had the lowest score.

Staff perception was looked at with regard to a common criticism that performance management system is perceived to be unfairly applied. The analysis showed that most employees agreed that a fair performance contracting system should show respect and value for individual employees. Good work environment was rated highly with the finding showing that most respondents agreeing that performance contracting will thrive if management provides a conducive working environment. Staff motivation was looked at with regard to the implementation of performance contracting. The outcome of the study indicated that there is a positive correlation and that rewards are considered a powerful incentive for employees.

The analysis with regard to Training and development showed that institutions which train their employees are more likely to succeed in their performance implementation process than those who do not train. Performance feedback was looked at in regard to the extent to which the respondents considered it important. The outcome of the study indicated that most respondents agreed that feedback encourages performance. With regard to provision of adequate resources, it was noted that most respondents agreed that lack of resources was a big obstacle to performance contracting process in all local authorities in Kenya.

### **5.3 Conclusion**

The objective of the study was to establish the factors influencing implementation of performance contracts in local authorities in Kenya. From the study findings, the following may be noted, that there are various factors that influence implementation of performance contract in local authorities in Kenya. The involvement of employees to ensure acceptability had the highest influence among all other factors. Imposing sanction on managers to encourage performance has very minimal influence on the implementation of performance contracts in local authorities in Kenya. Based on the study findings, the study concludes that involvement of employees in performance contracting can help to enhance delivery of services in all local authorities.

The study also concludes that a rewards system plays a crucial role in motivating employees to achieve their performance contracting targets at the council. Hence, to improve performance, rewards should be introduced to motivate employees to achieve

their performance targets thereby improving service delivery in local authorities in Kenya.

Further the findings show organizational culture is critical in influencing implementation of performance contracts in local authorities in Kenya. The study concludes that the three factors, involvement of employees, rewards and organizational culture accounted for over 60.95% of the total variance.

#### **5.4 Recommendations**

From the study findings, there is an indication that various factors influence implementation of performance contracts in local authorities. The study therefore recommends that local authorities should consider involving their employees when designing performance contracts in order to ensure acceptability.

From the study findings, the study recommends that since PC helps in improving service delivery the council should upscale on the areas where it has noted positive changes and also address the challenges.

The study also recommends that the terms and conditions of service for council employees be improved in order to reap the full benefits of the PC. The council should build capacity for all cadres of staff, match work with skills, ensure all staff have individual performance targets linked to the council targets and establish an objective annual appraisal system that relates rewards to achievement of agreed targets. The council should create awareness to the staff on the dangers of corruption and take appropriate action where the same has been reported.

To ensure that the council performance review and contracting increases productivity of the council, this study recommends that political interference is minimized in running the local authorities in Kenya. In addition, creation of awareness of Performance Contracts to staff of all cadres; practice wider consultation in both target setting and review; and prepare for the review by allocating more time at the council level. The study also recommends that there should be individual targets other than the council targets to enable the individuals to measure their targets achievements and there should be regular departmental meetings to discuss challenges, achievements and aspirations.

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

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

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

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

## **5.5 Limitations of the Study**

Being a cross-sectional survey on local authorities the data gathered in this study might differ from other councils. This is because different councils adopt different strategies that differentiate them. The study however, constructed an effective research instrument that sought to elicit general and specific information on the factors that influence performance contracting.

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

## **5.6 Suggestions for Further Research**

On further research, the study recommends that further studies should be conducted on the factors that influence performance contracting in other government departments so as to allow for generalization on the factors that influence performance contracting in the local authorities.

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

These findings imply that performance contracting can help to enhance delivery of services in the councils and other government agencies and the employee role in the process cannot be ignored. The councils should thus upscale on the areas where it has noted positive changes and also address the challenges. The findings of the study will be useful to the Performance Contracting Department as it will provide feedback on the challenges faced by the councils and other agencies while implementing performance contracts. The Department can use the findings of this study to address some of the challenges while issuing future Performance Contracting Guidelines.

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## QUESTIONNAIRE

Kindly fill in the following questionnaire. All data and information are strictly confidential and will be used for academic purposes only. Your answers will remain anonymous and at no instance will your name be mentioned in this report.

The questionnaire is divided into two parts, Part I and II. Kindly answer each question as accurately as possible.

### PART 1

#### **General information**

1) In what category does your Local Authority fall?

City ( )

Municipality ( )

Town ( )

County ( )

2) Kindly indicate the position you hold

Town Clerk ( )

Town Treasurer ( )

Chief Officer ( )

### PART II: Factors Influencing Performance Contracting in Local Authorities

For each statement, tick each statement once to indicate your level of agreement or disagreement (1 - Strongly agree, 2. Agree 3. Neither agree or disagree 4. Disagree 5. Strongly disagree)

	1	2	3	4	5
<b>Vision and mission</b>					
The alignment of individual goals and organizational is important in the development of a performance management system					
The performance contracting is designed to flow from the vision and mission statement					
<b>Leadership</b>					
Effective leadership is critical in providing personal development					
Leadership attributes play a pivotal role in mobilizing and gaining the support of the staff members					

	1	2	3	4	5
<b>Organizational Culture</b>					
Organizational culture holds profound implications upon those organizations who wish to increase their effectiveness					
Distrusting environment influences performance					
The environment around an organization determines success					
To avoid the pitfalls organizations must create an atmosphere of open communication					
<b>Involvement of employees</b>					
The best way to ensure the acceptability of a performance evaluation design is to let users participate in creating it					
<b>Change management</b>					
Senior government officials tasked with the responsibility of leading change should have a proper understanding of change management process					
Resistance to change introduces costs and delays					
The reasons for the failure of many change initiatives can be found in resistance to change					
The managers should be left free to manage their LAs within agreed parameters once the performance target has been set					
<b>Staff perception</b>					
A common criticism of performance management systems is that they are perceived to be unfairly applied					
A fair process within an organization shows respect and value for individual employees					
<b>Working conditions</b>					
Working conditions may contribute to disillusionment of workers					
Performance Contracting will thrive when management provide a conducive working environment					
Lack of effective channels through which employees can voice their grievances contributes to lack of achieving the set performance targets					
<b>Staff motivation</b>					
Motivating and rewarding good performers are key success to effective strategy implementation					
Organizational rewards are powerful incentives for employees					
<b>Training and Development</b>					
The Performance contracting system and an organization's training and development initiatives should co-exist					
Employees at all levels need to learn the principles of the performance contracting management system					

	1	2	3	4	5
Human Resources should guide line managers in following performance contracting process					
<b>Rewards</b>					
Negative sanctions such as withholding of financial intrinsic reward for poor performance are necessary to encourage managers' effort					
Employers need to provide promising links between performance and reward systems					
<b>Performance Feedback</b>					
It is useful to periodically check the Performance Contracting measurements are accurate and useful to the organization					
Feedback encourages performance					
<b>Provision of Adequate Resources</b>					
Failure to provide adequate resources leads to feeble efforts in the implementation process					
Lack of resources is an obstacle to performance contracting					

Based on your past experiences, please state some other factors (note addressed by the questionnaire) that influence implementation of Performance Contracts in Local Authorities

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*Your co-operation and effort in responding to the questionnaire is highly appreciated.*