



Performance Contracting As a Strategy for Enhanced Employee Commitment: A Case of the Vocational Training Centre Sikri, Kenya

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ABSTRACT

Literature on the relationship between performance contracting and employee commitment in tertiary special needs institutions in Kenya is dearth. In addition to this, majority of these past researchers who have attempted to investigate these variables have concentrated on performance contracting implementations in state corporations with few studies done on its effectiveness on service delivery in tertiary institutions. This study therefore sought to investigate the link between performance contracting and employee commitment using cross sectional survey research design. Data was mainly collected from primary and secondary sources and was analyzed via SPSS after cleaning and coding. The study found employee commitment to positively affect performance contracting. The study also found a positive relationship between employee commitment, performance contracting ($r=0.159$), employee productivity ($r=0.147$) and performance contracting to positively and significantly ($p=.000$) employee commitment. The study recommends that the institute's board of governors should develop and put to use an effective performance management policy document that will synchronize performance based system with employee commitments for the overall organizational development.

Keywords: Employee commitment, performance contract, organizational performance.

JEL Codes: R38, R52, R58, J64.

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1.0 INTRODUCTION

Efficiency and transparency in management of public resources has been the desire of every citizen all over the world, (AAPAM, 2005). It is this desire that led the monolithic government in Belgium to introduce performance contracting in 1830s with a view to make public officers accountable for their actions and to ensure that public resources are effectively utilized for the benefit of the common citizen. The government of Kenya upon realization that most state corporations were performing

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dismally introduced Parastatal Reform Strategy in 1989 which was approved by cabinet in 1991, (Nyongesa et al, 2012). This reform strategy concentrated on liquidation of non performing parastatals, reducing monopolies and contracting out commercial activities to private sector. Before performance contract was introduced most state agencies were being managed without any form of result based appraisal system and it was like a football match without a referee, (World Bank, 1995). This decline in performance was attributed to poor management style, duplication of work and wastage of resources, (RBM Guide, 2005). Performance contract therefore was meant to bridge this gap and to empower employees to be creative so as to improve job satisfaction, employee commitment and organization performance, (Akaranga, 2008 & Ndungu, 2009). According to Anwak and Marsden (2007), Pearce and Robinson, (2011), Verbeeten, (2007), Aslam and Tariq (2011) organization that undertake performance related pay stand to benefit in more ways through the optimum utilization of human resource as they are able to align employee's activities to strategic goals for better coordination.

Employee commitment is the wax that glue any performance based strategy in any company. This is because commitment directs and sustains the urge to go an extra mile to deliver. Prowse and Prowse, (2009), argue that committed employees tend to align organizational goals with individual goals thus reducing conflicts that may impede attainment of set targets. Omboi & Kamencu, (2011) and Marsden (2009) further assert that such employees who are committed to their duties tend to exhibit certain behaviors while performing tasks. These behaviors include indirect and extra roles. They argue that extra roles also known as Organization Citizenship Behavior creates the fabrics that boost attainment of organization goals since it creates catalysts around core tasks.

Definition of performance contract has been so elusive. According to Bedeian, Arthur and Wren, (2001), Balogun (2003) the concept of performance contract system was first noted by Simon Nora in 1960s. According Armstrong and Baron, (2005), OECD (1997) and Greer et al (1998), performance contract entails a wide range of management tools used to define responsibilities and expectations between parties to achieve mutually agreed results. According to Kumar (1994), performance contracting is a memorandum of understating between parties. Kenya Sensitization Training Manual (2004) defines it as a freely negotiated performance agreement between the government, organization and individuals on one hand and the agency on the other hand on specific mutual performance obligation. Trivedi (2004) defines performance contract as an agreement between government and public authority or officer which establishes objectives, goals or targets and provides incentives for attainment of results. This study defines it as mutual agreement between parties to deliver within a given time period using available resources.

The history of signing of performance contract between the government of Kenya and other agencies can be traced to April 1989 when Kenya Railways signed the first contract and in November 1990 National Cereals Board signed their contract, (Kobia & Mohamed, 2006). In 1990, Cabinet Memorandum No. 90 clearly set the stage for performance contracting in public institutions, (Musa, 2001, Gakure, Murui & Orwa, 2013 and Mbutia, Ngari & Mwangi, 2012). In 1993 the government of Kenya formulated Public Sector Reforms which focused on containment and rationalization of public service that witnessed massive retrenchment programme for employees in job group A-G and those employees whose services were no longer required, (Opiyo, 2006, Performance Contract Steering Committee, 2005 and DPM, 2005). In 2001 the government launched Strategy for Performance Improvement in Public Service. This strategy emphasized on result oriented management approach that adjusted operations to match objectives, outputs and results, (Kiprop, Okoth-Yogo & Chiragu, 2014). This transformed the government operations from passive or closed system to pro active or open system. In addition to this, all government agencies were required to develop strategic plans in line with the 9th National Development Plan, Poverty Reduction Strategy Paper and Medium Term Expenditure, Sectorial Priorities and Millennium Development Goals, (Kobia & Mohamed, 2006). In Early 2003 Economic Recover Strategy for Wealth and Employment Creation was also developed and launched. In order to achieve the ERS objectives the government of Kenya reintroduced performance contracting as part of public sector reform programme aimed at improving efficiency, effectiveness and commitment in delivery of public service, (G.O.K, 2004).

In August 2003 the government appointed performance contracting steering committee to oversee the reintroduction of performance contract in public institutions, (DPM, 2005, G.O.K, 2010 & Nyagol, 2012). The reasons for the reintroduction of performance contracting was to make top management accountable, eliminate over reliance on ex chequer funding for government agencies, attainment of parachuted projects, increase revenue, link reward to performance, improve service delivery to the public and measure/ evaluate employee performance, (Kobia & Mohamed, 2006). In December 2004 a pilot group of 16 state corporations signed the contract and in April 2005 a total of 175 local authorities signed the contract. On 30/9/2005 five major municipalities signed the contract and in June 2006 other municipalities joined. In 2010, the government appointed a panel to review the whole performance contracting process since its establishment in 2003, (Gakure & Orwa, 2013). Currently, there is a move by the government to introduce performance contracting in all public secondary and primary schools in Kenya.

Performance contract since its inception in Kenya has tremendously contributed to effective service delivery to the citizens more so in tertiary institutions. This is because resources that used to be idle are effectively being utilized as documented by past scholars such as Kobia & Mohamed, (2006), Gakure & Orwa (2013) and Awino & Saoli (2014). It is important to note that majority of these past studies have concentrated on performance contracting implementations in state corporations with few studies done on its effectiveness on service delivery in tertiary institutions, Korir (2006) and Letangule and Letting (2012). It is therefore necessary to bridge this gap by conducting this study with samples drawn from a special needs institution located in the newly established counties. This study was meant also to contribute to knowledge creation and to further research as recommended by previous scholars. It based on these premise that the study sought to test whether a statistical significance relationship exist between performance contracting on employee commitment using samples drawn from the vocational training centre for the blind and deaf Sikri, Kenya.

2.0 LITERATURE AND HYPOTHESIS

Awino & Saoli (2014) using cross sectional survey design investigated management perception on performance contracting strategy at the City Council of Nairobi. The study found out that employee engagement affects work environment by 57.7% ($r=.577$) and management commitment by 46% ($r=.461$). These findings corroborates the findings of Gathai, Waithaka & Kaimengi (2012) who analyzed factors affecting the implementation of performance contracting at Kenya Civil Aviation Authority and found out that organization commitment affects performance contracting by 28.1%. Similarly earlier studies done by Kiboi (2006) reiterates that performance contract in public institutions has ensured that top management commit to deliver hence improved services to the clients. Obonyo (2009) argues that before performance contract was introduced, public service in Kenya's reputation was damaged and it was difficult to recognize and reward hard work. Muthaura, F. (2007). Performance Contracting in Kenya; Restoring Faith in government through Innovation to promote Quality of Public Service. asserts that employees currently have to justify why they have to remain on payroll and the process have encouraged inclusion of citizens in the management of public resources.

Kiprop, Okoth-Yogo & Chiragu, (2014) analyzed employee's perception of performance contracting at the Ministry of Lands. The study established that 70% of the employees agreed that performance contract has increased transparency and accountability at the Lands Department. This means that with the introduction of performance contract at the ministry of Lands, delays in processing of title deeds has been minimized and customers are generally satisfied. In addition to this, the study done by Nyongesa, Sewe & Ng'ang'a (2012) on challenges facing implementation of performance contracting in state corporations in Kenya using a sample drawn from employees at Chemelil Sugar Company found out that performance has improved accountability by 57%. The study also found out that performance contract has increased responsibilities in positions by 60% thus the top management of the company now committed to their duties.

Kwamanga and Achoch (2014) conducted a case study on factors affecting implementation of

performance related pay at Kenya Revenue authority. The study adopted a self administered questionnaire on 232 respondents and found out that 65.5% of the employees disagreed with the statement that top management influence the implementation of performance related pay. However, 73% agreed that the management has created a culture of teamwork in the organization. However, the case study done by [Letangule & Letting \(2012\)](#) on effects of performance contract on organization at the Ministry of Education in Kenya revealed that performance contract has improved efficiency ($\beta=.210$ and $p=.004$), consistency ($\beta=.396$ and $p=.001$), creativity ($\beta=.120$ and $p=.003$) and service delivery ($\beta=.188$ and $p=.004$). It is important to note that for this study by [Letangule & Letting \(2012\)](#), all the p values were positive and significant hence existence of a statistical relationships between the variables.

[Wachira & Juma \(2013\)](#) investigated the effects of Bureaucratic structures on strategic plan implementation in public universities in Kenya with a sample of 350 respondents using case study research design. The study found out that 28% of the respondents agreed that employee involvement in decision making process to some extent affect productivity of the firm. These findings were similar to the findings of the study done by [Omboi & Mucai \(2011\)](#) who found out that organization structure, flexibility and commitment greatly affects output of individual employees. [Longnecker and Goff \(1992\)](#) adds that organizations that want to benefit from any strategy needs to minimize unhealthy competition and infighting between employees as it retards growth.

[Gakure, Muriu & Orwa \(2013\)](#) investigated the role of performance contracting in enhancing effectiveness of performance in the civil service in Kenya. The study found out that 57% of the respondents agreed that performance contract has influenced employee's behavior. In addition to this, [Mugwira \(2014\)](#) who proposed to study performance contracting implementation and employee performance in Embu Water and Sanitation Company Limited argues that performance contract has increased efficiency and employee commitment in public sector. Lastly, [Mbuthia, Ngari & Mwangi \(2012\)](#) who studied effectiveness of performance contract in public institutions in Nakuru County using descriptive survey research design found that performance contract influence service delivery by 48% ($r=.47.8$). Based on these reviewed studies, there is clear indicator that most of the findings have not conclusively analyzed and established whether a statistical relationship exist between employee commitment and performance contracting. This study therefore sought to test the hypothesis below:-
H₀₁: There is no statistical significant relationship between performance contracting and employee commitment.

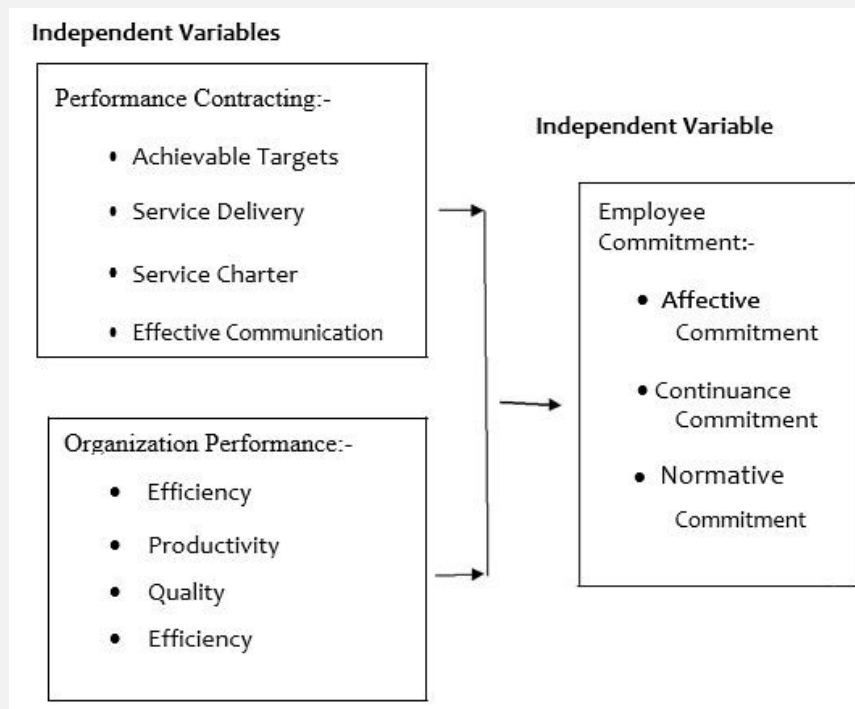
The study adopted the Management Theory by Peter Drucker. This theory was espoused on the premise of its direct relationship with the concepts of performance contracting and employee commitment. This theory postulates that employees are the most valuable assets in an organization and therefore should be treated with dignity, [Drucker \(1974\)](#). When employees are respected and given freedom at work place they tend to be creative and committed and this is hypothesis upon which performance contracting in public institutions are anchored. Again during the signing of performance contracts, targets are set based on mutual agreement between the parties not imposed. This ensures that all parties own the targets and results. This in turn promotes accountability during evaluation.

The theory asserts that organizations should be decentralized and allowed to outsource for services that are not within their core mandates, ([Wartzma, 2010](#)). It is upon this argument that performance contracting in public institutions was initiated in 1991 following a resolution by the cabinet, ([Kobia & Mohamed, 2006](#)). The front services to be outsourced to enable the organization concentrate on its core functions. The idea of outsourcing is currently being used in the sense that independent consultants are invited normally to undertake surveys to gauge the level of customer and employee satisfaction during the implementation of the contract. Decentralization not only improves efficiency of service delivery but also ensures that customer needs are satisfied.

The theory emphasis that the primary responsibility of any organization is to serve its customers in the most transparent and accountable manner, ([Beadeian & Wren, 2001](#)). It is on this basis that performance contract was launched to improve service delivery to the public. The theory also

emphasizes on knowledge management. It asserts a knowledge based workforce is more committed informed and decisive hence better output. It is upon this basis that the current performance contract guideline 2014/2015 demands that all agencies are required to commit to knowledge management to facilitate sharing of knowledge for quality results. The theory also asserts that private sector plays a pivotal role in the development of a country's economy, *Drucker (1974)*. It is this concept of involvement of non government actors in certain sectors of the economy that reduced monopolies by some state parastatals in the early 1990s as directed by the parastatal reform strategy. This spurred competition for the gain of the common citizen of Kenya, (*Nyongesa, Sewe & Ng'ang'a, 2012*). The study embraced the conceptual framework as illustrated in figure 1

Figure 01: Conceptual framework showing the link between performance contract, organization performance and employee commitment



Source: Author, 2014

In figure 1, there are two independent variables. Performance contracting being the first variable in this framework is measured by sub variables such as achievable targets, service delivery, service charter and effective communication/ complaints resolutions. Organizational performance has sub variables such as efficiency, effectiveness, quality and productivity. All these variables have a direct causal relationship with employee commitment which has sub variables such as affective, continuance and normative.

3.0 DATA AND METHODOLOGY

Longitudinal designs could not be used due to time and cost constraints, (*Kombo & Tromp, 2006*). Cross Section Survey was therefore adopted since the researcher intended to generalize on the findings and due to the fact that it allows for hypothesis testing, (*Ngechu, 2004*). It was also used because the researcher wanted to gather descriptive factual information necessary for decision making, (*Mugenda & Mugenda, 2009*).

The key respondents targeted included teachers, auxiliary staff, students and Board of Management members. Teachers and auxiliary staff were included because they are the implementer of the performance contract. Students were included since they are the primary customers who benefit directly from the performance contracting in tertiary institutions. Board of Management was included

since they are signatories to the contract and their commitment is crucial for performance contract implementation.

Stratified sampling was used to select 107 participants because the researcher wanted to collect information from all the sub groups in the target population. The sample was derived as follows:-

Stratum	Sample size distribution		
	Target Population	Sample Size	Percentage
Teachers	17	17	100%
Auxiliary Staff	23	23	100%
B.O.M Members	13	6	46%
Students	94	61	65%
TOTAL	147	107	73%

Source: Staff Returns, 2014

Structured Questionnaire was used to collect data from the participants. Questionnaire was used because it allows for collection of systematic, comprehensive, quantifiable data needed to answer the research questions, (Kothari, 2005). The questionnaire was structured in such a way that it contained a five point Likert scale where respondents were requested to rate their opinion based on the statements on performance contracting, employee commitment and organization performance. The items on organization commitment were adopted with modification from Meyer and Smith (1993) employee commitment survey items while organizational performance sub indicator measures were borrowed from Katou (2011).

Construct and content validity were achieved through literature review, piloting and consultation with specific area experts. During the literature review the researcher developed a complete register of the performance contracting measures, employee commitment and organization performance. This literature formed the basis for the drafting of the first questionnaire. The developed questionnaire was presented to two experts at the department of Human Resource Management for critique. This procedure of expert assessment was repeated until there was total agreement between the two experts. The document was then piloted twice two weeks prior to actual data collection.

Reliability of the questionnaire was achieved by use of test retest technique before piloting where the researcher randomly selected 8 participants from the institute and administered the tools. This procedure was repeated after 10 days and the results were computed with a Cronbach alpha value of 0.823 being attained.

4.0 RESULTS AND DISCUSSIONS

4.01 QUESTIONNAIRE RETURN RATE

A total of 107 questionnaires were issued out and 83 returned. This was 78% return rate which is within the acceptable range.

4.02 PERFORMANCE CONTRACT, EMPLOYEE COMMITMENT AND ORGANIZATION PERFORMANCE

The researcher requested the participants to indicate their opinion based on statements regarding performance contracting, employee commitment and organization performance in a five point Likert scale. Data Collected was subjected to analysis via SPSS version 16 to compute frequency distribution and the results were as follows:

Table 01: Frequency distribution

Statement	Strongly Disagree	Somehow Agree	Neutral	Somehow Agree	Strongly Agree
Our organization set achievable target in performance contract	7.2%	2.6%	31.3%	24.1%	15.7%
Performance Contract Has improved Service Delivery	4.8%	3.6%	9.6%	22.9%	59.0%
Our organizations adheres to the service charter	3.6%	1.2%	8.4%	47.0%	39.8%
Our organization has clear communication and complaint handling mechanism	9.6%	16.9%	6.0	34.9	32.5
Our organization offers quality services	2.4%	7.2%	12.0%	22.9%	55.4%
Our organization is efficient	12.0%	10.8%	18.1%	12.0%	47.0%
Our organization is effective	1.2%	20.5%	9.6%	20.5%	48.2%
Our organization is productive	6.0%	15.7%	19.3%	26.5%	32.5%
I would be very happy to continue to work in this organization	9.6%	12.0%	44.6%	4.8%	28.9%
This organization mean a lot to me	8.4%	8.4%	15.7%	48.2%	19.3%
I feel that the organization understands my problems	3.3%	13.3%	2.4%	16.9%	49.4%
I am loyal to the organization	12.0%	20.5%	14.5%	20.5%	32.5%
N=83					
Source: Field Data, 2014					

In table 1, majority of the respondents (31.3%) were neutral on the statement our organization set achievable target in performance contract. Majority of the respondents (59%) strongly agreed that performance contract has improved service delivery to citizens. Majority of the respondents strongly agreed that the institute offers quality services (55.4%) while the statement I feel the organization understands my problem attracted 49.4% strong agreement.

The data was further subject to further analysis to the skewness and kurtosis. This was done to determine the shape of the distribution of the respondents. The mean and standard deviation was also included and the results were as shown in table 2.

In table 2, the statement performance contract has improved delivery of services at the institute has the highest mean of 4.277 and standard deviation of 1.071. This implies that majority of the respondents somehow agreed that performance contract when effectively implemented improves service delivery to the citizens. The statement our organization offers quality services has a mean of 4.217 thus confirming that performance contract to some extent increases organization performance through the provision of quality services and in turn satisfied customers.

Table: 02: Descriptive statistics					
Category	Statement	Mean	Std Deviation	Skewness	Kurtosis
Performance Contracting	Our organization set achievable targets in performance contract	3.072	1.208	.156	-1.028
	Performance contract has improved service delivery	4.277	1.097	-1.656	2.118
	Our organizations adheres to the service charter	4.181	.913	-1.653	3.664
	Our organization has clear communication and complaint handling system	3.639	1.349	-.715	-.802
Organization Performance	Our organization offers quality services	4.217	1.071	-1.302	.856
	Our organization is efficient	3.711	1.453	-.676	-.966
	Our organization is effective	3.940	1.233	-.723	-1.001
	Our organization is productive	-.038	-.876	-.531	-.829
	I would be very happy to continue to work this organization	3.313	1.278	-.038	-.876
	This organization mean a lot to me	3.615	1.146	-.936	.208
	I feel that the organization Understands my problems	3.880	1.400	-1.036	-1.98
	I am loyal to the organization	3.410	1.432	-.325	-1.303
N=83					
Source: Field Data, (2014)					

The statement our organization sets achievable targets received the lowest rating with a mean of 3.072. However, it is important to note that this mean is still within the range of neutral response category. This rating may have been attributed to the fact that targets in the performance contract are normally set by a team from the institute led by the principal as the chief accounting officer, chairman, independent board member, a few selected Heads of Departments, a team from the parent ministry who form the pre negotiation and the adhoc committee during the final vetting process. Even though this process is open, inclusive and participatory, may be some respondents who are not directly involved in setting the targets such as students may have indicated low rating. This statement also has a positive skewness value of 0.156 thus indicating that the distribution has long right tail while Kurtosis value of -1.028 shows the presence of Platykurtic data values.

These findings reverberate the study done by [Letangule and Leting \(2012\)](#) who found that with the introduction of performance contract in public institutions, there is enhanced value for money (mean= 3.0 and Std Dev.0.625), improved input/ output (mean= 4.00 and Std Dev. 0.873) and reduced wastage (mean= 2.1 and Std Dev. 0.429). These findings are similar to findings of research conducted by [Oluoch, Nyagol & Nyandiga, \(2013\)](#) & [Opiyo \(2009\)](#), [Kubaison, \(2014\)](#) and [Obong'o, \(2009\)](#).

4.03 CORRELATION STATISTICS

The mean of employee commitment, performance contract and organization performance were subjected further to correlation analysis and the findings were as follows as indicated in table 3.

	Organization Commitment	Performance Contract	Organization Performance
Organization Commitment	1		
Performance Contract	.159	1	
Organization Performance	.147	.034	1
N=83			
*. Correlation is significant at the 0.05 level (2-tailed).			
**. Correlation is significant at the 0.01 level (2-tailed).			
Source: Field Data, 2014			

Table 3, indicates that there is a positive correlation ($r=.159$) between employee commitment and performance contracting. There is also a positive ($r=.147$) relationship between employee commitment and organization performance. Positive but insignificant relationship is also evidenced between the independent variables. This means that performance contract accounts for 3.4% ($r=.034$) of the organization performance. These findings echo the results of the study findings by Birech (2011) who found out that performance contract has improved efficiency in delivery of public service by 52%, enhanced consistency by 87%, promoted commitment by 78% and motivates employees by 61%. In order to test the null hypothesis, the researcher subjected data linear regression analysis using SPSS. It is critical to note the values for organization performance which was included in the Pearson Moment Correlation was excluded in the final regression analysis since it was not part the hypothesis to be tested. The results for the regression analysis are shown in table 3.

	Unstandardized Coefficients		Standardized Coefficients		Collinearity Statistics		
	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
(Constant)	1.625	.463		3.511	.001		
Performance Contracting	.510	.119	.431	4.301	.000	1.000	1.000
Model Summary							
R Square	.186						
R Adjusted	.176						
Durbin Watson	.993						
F Change	18.514						
Sig.	.000						
*. Regression is significant at the 0.05 level (2-tailed).							
DP= Employee Commitment							
Source: Survey Data, 2014							

In figure 3, the p value is .000, this confirms the existence of a positive significant statistical relationship between performance contracting and employee commitment. Consequently confirming the existence of positive link between performance contracting and employee commitment. This also means that the null hypothesis was not supported or rejected. This findings are similar to the findings of the study done Mbuthia, Ngari and Mwangi (2014) who found out that performance contract affects the effectiveness of service delivery by 47.7% ($r=.477$).

5.0 CONCLUSION AND POLICY IMPLICATIONS

Based on the study findings, the institute's board of governors should develop and put to use an effective policy performance management document that will synchronize performance based system with employee commitments for the overall organizational development. In addition to this the institute should continue to sensitize both internal and external customers on the services rendered.

This can be done by cascading the citizen service charter to all departments and developing brochures that captures details of services being offered. In addition to this the institute should ensure that targets set are achievable and all members participate in setting the targets prior to the vetting process. The setting of the targets should start immediately the guideline for the cycle is received. Strategic plan should be used when setting these targets so that the institute's priority areas are taken into consideration.

The institute should continue to explore new markets for its products so as to increase its revenue base. The concept of value addition also needs to be incorporated. This can be done to farm and workshop products. The institute should continue to hold open days and introduce new competitive courses so as to attract more students. This will boost enrolment and scope of services/ products offered. Finally, further research should be conducted in this area especially the moderating effects of employee commitment on performance contract and organizational performance. This study should adopt longitudinal research designs and present rich data that will guide policy formulation.

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