

**EMPLOYEES' PERCEPTION OF DETERMINANTS OF THE EFFECTIVENESS OF  
PERFORMANCE CONTRACTING ON SERVICE DELIVERY IN LOCAL  
AUTHORITIES IN KENYA**

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**Employees' Perception of Determinants of the Effectiveness of Performance  
Contracting on Service Delivery in Local Authorities in Kenya**

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**DECLARATION**

This thesis is my original work and has not been presented for a degree in any other university.

Signed..... Date.....

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This thesis has been submitted for examination with our approval as university supervisors.

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## **DEDICATION**

To my mother Mrs. Mary Wanjiku Mwangi. You instilled discipline, passion and thirst for knowledge, through your famous bible quote “my people are perishing for lack of knowledge” and other regular bible quotes. You inspired me greatly through your love and passion for education which up to-date is very much alive.

To my wife Mary, my children Juliet, Cyrus, Winnie and Wilfred and even my grand daughter Vanessa. Your patience during the long and many hours of absence cannot be taken for granted. I will forever be indebted to them.

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## **ABBREVIATIONS AND ACRONYMS**

<b>ICT</b>	Information and Communication Technology
<b>IEA</b>	Institute of Economic Affairs
<b>KACC</b>	Kenya Anti-Corruption Commission
<b>KPI</b>	Key Performance Indicators
<b>LA</b>	Local Authorities
<b>LAIFOMS</b>	Local Authorities Integrated Financial Operating Management Systems
<b>LATF</b>	Local Authorities Transfer Fund
<b>MIS</b>	Management Information Systems
<b>MOLG</b>	Ministry of Local Government
<b>OECD</b>	Organization for Economic Co-operation and Development
<b>RRI</b>	Rapid Results Initiatives

## **DEFINITION OF KEY TERMS**

**Performance Contracting-** Performance contracting is a freely negotiated agreement between government acting as the owner of a public enterprise and the enterprise itself in which the intentions, obligations and responsibilities of the two parties are freely negotiated and then clearly set it out. (GOK, 2010)

**Financial Management-** is defined as the management of the finances of an organization in order to achieve the financial objectives of the organization and consists two aspects namely; financial planning and financial control (Pandey, 2010)

**Information Technology-** is the acquisition, processing, storage and dissemination of vocal, pictorial, textual and numerical information by a micro-electronics-based combination of computing and telecommunications. IT also includes office automation, multimedia, and telecommunications (Aliyua and Issa, 2002; Issa, 2002) Jagger and Lokman (1999) see ICT as a generic term referring to technologies which are being used for collecting, storing, editing and passing of information in various forms.

**Human Resource Management-** is defined as a strategic and coherent approach to the management of an organization's most valued assets – the people working there who individually and collectively contribute to the achievement of its objectives, Armstrong (2006).

**Local Government:** Is defined as a system of government whereby the state allows the establishment of local units of government with powers and authority to make

local decisions on matters that affect the local communities and to mobilize local resources for implementation or execution of the decisions made (Muia, 2005).

**Management-** Monday, Sharplin and Flippon (1988) defines management as the process of getting things done through the efforts of other people.

**Rapid Results Initiatives:** The Rapid Results Initiatives (RRI) is a results-focused learning process aimed at jump-starting major change efforts and enhancing implementation capacity. (Obong'o S.O., 2009).



## **ABSTRACT**

This study was an assessment of employees' perception of determinants of the effectiveness of performance contracting in service delivery in local authorities in Kenya. Public outcry on quality of services has not been uncommon in public sector, which includes local authorities. Despite the resources of the national government, inputs and concern on improved service delivery, performance of local authorities on service delivery is far below expectation. This concern triggered the introduction of performance contracting as a solution to improved service delivery and accountability. It is for this reason that, the current study sought to assess the employees' perception on determinants of effectiveness of performance contracting in service delivery in local authorities in Kenya. The study objectives were: to assess whether management and leadership influence performance contracting; to establish whether financial management has an influence in performance contracting; to determine the effect of information technology in performance contracting; to evaluate whether human resource management has an influence in performance contracting; to determine the role of governance in performance contracting. Correlational research design was used to conduct the study in 175 Local Authorities in Kenya as per the Ministry of Local Government. A sample of 18 local Authorities was selected using a stratified systematic sampling technique. Questionnaires were used to collect data from local authority employees. The study findings indicated that the causes of in-effectiveness of performance contracting include leadership style, financial management practices, human resource management practices, information technology and governance practices. These variables were found to have a positive and significant relationship with effectiveness of performance contracting. This implies that an increase in the effectiveness of these variables leads to improved effectiveness of performance contracting in local authorities and vice versa. The study recommends that best practices in the area of leadership financial management, human resource management, and governance and information technology be continuously applied and cascaded to the lowest cadres of staff. The recommendations may be critical to the successful running of the county governments that takes over the services performed by local authorities.



## **CHAPTER ONE**

### **INTRODUCTION**

This chapter explores the historical background of performance contracting, the evolution, benefits and challenges of performance contracting. The study then defines the problem statement, objectives of the study, research questions, justification, the scope and the limitations of the study.

#### **1.1 Background of the Study**

Jenkins (2007) states that a performance contract is defined as a management tool for measuring performance that establishes operational and management autonomy between government and public agencies. It reduces quantity of controls and enhances the quality of service. The performance contract privatizes the style of public sector management by focusing on results and not processes. It also measures performance and enables recognition and reward of good performance and sanction bad performance.

According to England (2000) a performance contract addresses economic, social or other tasks that an agency has to discharge for economic performance or for other desired results. It organizes and defines tasks so that management can perform them systematically, purposefully, and with reasonable probability of accomplishment. It also assists in developing points of view, concepts and approaches for determining what should be done and how to go about it. Performance contracts comprise determination of mutually agreed performance targets and review and evaluation of periodic and terminal performance.

Performance contracting is a freely negotiated agreement between government acting as the owner of a public enterprise itself in which the intentions ,obligations and responsibilities of the two are freely negotiated and then clearly set it out (GOK 2010).

### **1.1.1 Performance Contracting**

Performance contracting has been widely used in the public sector by the developed countries such as France, the Netherlands and New Zealand among others with marled success (Shirley & Xu, 2001). The experiences in developing countries though, citing case studies in China, India, Morocco, South Africa, Cote D' Vore and Gambia among others have shown mixed results (Gao, 2010). Selden (2007) argues that all public sector reform initiatives, whether they be aimed at enhancing financial management, or promoting greater accountability, or enhancing policy development and capacity building within government, or driving forward ethics reform, or ensuring greater service delivery to citizens, are contingent upon a government possessing skilled and talented public servants(Mau, 2009).

Traditionally, the shortcomings of the public sector were seen as organizational problems capable of solution by appropriate application of political will, powerful ideas and managerial will. The overriding concern with economic growth has led to a refocusing (Fernandez, 2010). Over the years, poor performance of the public sector, especially in the management of public resources has hindered the realization of sustainable economic growth (Spivey, 2005).

Some of the factors adversely affecting performance include: excessive regulations and controls, frequent political interference, poor management, outright mismanagement and bloated staff establishment. To improve performance, the Government has been undertaking a number of reform measures (Trivedi, 2009).

### **1.1.2 Performance Contracting in Kenya**

All governments would like to be more efficient, more cost effective, more accountable and more responsive (Kobia and Muhamed, 2006; Muganda-Ochara and Van Belle, 2008). The difficulty is that, although failure flaunts itself and is easily spotted, success is more modest. It is easier to identify what the public service must escape from than to point out exactly where it must go. In 1990, the Government approved the introduction of Performance Contracts in the management of public agencies. A few state corporations attempted to develop variants of performance contracts that were however, not implemented (Muganda-Ochara and Van Belle, 2008).

In 2003, the Government made a commitment to introduce performance contracts strategy as a management tool to ensure accountability for results and transparency in the management of public resources. To that end a Performance Contracts Steering Committee (PCSC) was established in August 2003 and gazetted on 8th April, 2005 with a mandate to spearhead the introduction and implementation in the entire public sector (Trivedi,2009; Kobia & Muhamed, 2006). To arrive at the measuring of the raw scores the evaluation of the performance of public agencies entailed the rating of actual achievements against performance targets negotiated and agreed upon at the beginning of the financial year. The resultant differences were

resolved into raw scores, weighted scores and ultimately denominated into Composite Scores. The performance rating of the institutions was based on the following attributes and criteria: Excellent - Achievement between 30% and 100% above target; Very Good -- Achievement of up to 129.99% of the target; Good - Achievement between 70% and 99.99% of the set target; Fair - Achievement between 50% and 69.99% of the target, Poor - Achievement between 0% and 49.99% of the target (GOK, 2011).

In the implementation of performance contracts, an Ad-hoc Negotiations and Evaluation Task Forces whose members were drawn from outside the public service assist the steering committee (Trivedi, 2009). The ad-hoc task forces are responsible for negotiating and evaluating performance contracts of ministries/departments, state corporations and Local Authorities on behalf of the Permanent Secretary, Secretary to the Cabinet and Head of the Public Service. The task forces are independent and comprises of eminent private sector practitioners, retired public servants with track records, business executives and academia. This ensures independence in the entire process of setting performance targets and in their evaluation (Kobia and Muhamed, 2006; Muganda-Ochara and Van Belle, 2008)

Kenya's Vision 2030 has recognized performance contracting among the key strategies to strengthen public administration and service delivery. The strategies will in this regard focus on deepening the use of citizen service delivery charters as accountability tools, and entrenching performance as a culture in the Public Service (Obongo, 2009). The challenge of securing commitment for results is profound, particularly at this time when the rhetoric of public service performance

improvement is as prevalent as the reality. This commitment takes willingness to commit before hand, taking responsibility for, as well as owning and accepting praise and blame for delivery of services agreed upon in a performance contract (Akaranga, 2008; Obongo, 2009).

The expected outcomes of the introduction of Performance Contracts include improved efficiency in service delivery to the public (Akaranga, 2010). This is made possible through ensuring that holders of public office are held accountable for results and improvement in performance (Kobia & Muhamed, 2006). In addition, it ensures efficiency in resource utilization and that public resources are focused on attainment of the key national policy priorities. Other expected outcomes include: ability to link reward for work to measurable performance, instilling accountability for results at all levels in the government and ensuring that the culture of accountability pervades all levels of Government (Muganda-Ochara & Van Belle, 2008). Performance contracting also has other outcomes such as the reduction or elimination of reliance on Exchequer funding by Public Agencies, ability to strategize the management of public resources and recreating a culture of results-oriented management in the Public Service (Aycan, Kanungo, Mendonca, Yu, Deller, Stahl, & Kurshid, 2000; Mittullah & Waema, 2007,).

### **1.1.3 Implementation of Performance Contracting in Local Authorities Kenya**

Local Government is the part of government, which deals with matters concerning the inhabitants of a particular area or form usually, financed at least in part by local taxes (Hutclison Encyclopaedia, 2004). The local government is the closest government to the people hence it is often referred to as grass roots government.

Bearuaster (2002) believes that the local government holds a unique position within the system.

The Republic of Kenya recognized the need to enhance efficient service delivery in local authorities. The need was expressed through the policy paper on Economic Recovery Strategy for Wealth and Employment Creation (ERS 2003 - 2007) which envisaged efficient service delivery by local authorities as a necessity to growth and development (GOK, 2010). Local authorities in Kenya has been endowed with huge resources including Local Authorities Transfer Fund (LATF), which is allocated 5% of the National budget, and local revenues, which they are mandated to collect from the business community. All this is meant to service the operating expenses and deliver quality service to the community (Evaluation on the Performance of Public Agencies 2011).

Statistics shows that the performance of local authorities as evaluated by public sector reforms and performance contracting and compared to other public institutions is wanting (GOK, 2011). Findings of the Kenya Round 4 Afrobarometer survey reveal that citizens remain discontented with the performance of local governments due to poor service provision and inability to follow procedures (Afro Barometer Briefing Paper, 2010).

## **1.2 Statement of the Problem**

Public outcry on quality of services is not uncommon in public sector local authorities included. Despite the resources of national government, inputs and introduction of performance contracting, performance of local authorities on service



delivery has been far below expectation (Afro Barometer Briefing Paper, 2010). According to the evaluation of performance contracting rankings (GOK, 2011), the state corporation ranked 10 had a composite score of 2.0121 better than the best performing local authority which scored 2.2876. This was a drop from the previous two years 2008/9 score of 2.2601 and 2009/10 score of 2.0892.

Based on the lower performance ranking of local authorities in Kenya and the continued drop in rank for local authorities, there is a justifiable need for a study to establish the determinants of effectiveness of performance contracting in improving service delivery in Kenyan local authorities. Mitullah (2004) brings out the deteriorating performance of Kenyan local authorities while the Afrobarometer survey of 2004 decries the poor service delivery of local authorities.

Reviewed local studies (Akaranga, 2010, Kobia and Muhamed, 2006, Muganda-Ochara and Van Belle, (2008) and Mitullah and Waema, 2007) did not critically address the determinants of performance contracting on service delivery of Local Authorities. Studies by Mitullah and Waema (2007), Muganda-Ochara and Van Belle (2008) were narrow and suffered from conceptual gaps since they only addressed the role of Information and Communication Technology (ICT) in local authorities service delivery. The study by Kobia and Mohamed (2006) suffered from a contextual gap since it concentrated on the Kenya Institute of Administration while the focus of the current study is on Local Authorities. The study by Akaranga (2010) also faced methodological issues since it was a desk-based study in addition to exploring a different contextual area (the general public sector). It is due to these conceptual and contextual gaps that the current study investigated the employees'

perception on the determinants of effectiveness of performance contracting results of local authorities in Kenya.

### **1.3 Objectives**

#### **1.3.1 General Objective**

The general objective of this study was to establish the employee's perception on the determinants of effectiveness of performance contracting in service delivery of local authorities in Kenya.

#### **1.3.2 Specific Objectives**

The objectives of the study were:

- i. To assess whether leadership style influences performance contracting results of Local Authorities in Kenya.
- ii. To establish whether financial management practices has an influence in performance contracting results of Local Authorities in Kenya
- iii. To determine the effect of information technology in performance contracting results of Local Authorities in Kenya
- iv. To evaluate whether human resource management practices have an influence in performance contracting results of Local Authorities in Kenya.
- v. To determine the role of governance practices in performance contracting results of Local Authorities in Kenya.

### **1.4 Research Hypothesis**

i. H<sub>0</sub>: The leadership style does not have an influence on performance contracting results of Local Authorities in Kenya.

H<sub>1</sub>: Leadership style has an influence on performance contracting results of Local Authorities in Kenya.

ii. H<sub>0</sub>: Financial management practices do not have an influence on performance contracting results of Local Authorities in Kenya.

H<sub>1</sub>: Financial management practices have an influence on performance contracting results of Local Authorities in Kenya.

iii. H<sub>0</sub>: Information technology does not have an influence on performance contracting of Local Authorities in Kenya

H<sub>1</sub>: Information technology has an influence on performance contracting results of Local Authorities in Kenya.

iv. H<sub>0</sub>: Human resource management does not have an influence on performance contracting results of Local Authorities in Kenya.

H<sub>1</sub>: Human resource management has an influence on performance contracting results of Local Authorities in Kenya.

v. H<sub>0</sub>: Governance practices do not have an influence on performance contracting results of Local Authorities in Kenya.

H<sub>1</sub>: Governance practices have an influence on performance contracting results of Local Authorities in Kenya.



## **1.5 Justification**

This may offer value to the following stakeholders. The specific stakeholders include the Government of Kenya, local authorities in Kenya and Africa, county governments, scholars and researchers.

### **1.5.1 Government of Kenya**

The government is very crucial in service delivery to its citizens and such services are delivered via government agencies like local authorities. This study informs government policy on the factors inhibiting the effectiveness of performance contracting, an important tool for better performance of local authorities and inform them on the best strategies to employ in making turnaround management of local authorities. This study finally came up with policy recommendations, which can be used by the management of local authorities to improve performance.

### **1.5.2 Local Authorities in Kenya and Africa**

Local authorities play a very pivotal role in service delivery to the Kenya citizens within their areas of jurisdiction. Every person in Kenya at any minute is within the jurisdiction of a local authority. Service delivery is the core activity of local authorities. The study may assist the Kenya Government in identifying the critical bottlenecks in local authorities' service delivery. It assists the local authorities in understanding the critical factors affecting their service delivery and how they need to improve on the same. It can help the Kenyan public in receiving improved services from the local authorities. It can help the attraction of investors in both the urban and rural areas who can create employment and hence reduce poverty.

### **1.5.3 County Governments**

The county governments, which took effect with the new constitutional dispensation may benefit a lot from the study findings primarily because the study addresses the causes of poor performance in relation to service delivery in local authorities. The county governments are expected to play similar roles to the local authorities.

### **1.5.4 Scholars and researchers**

This study is of value to researchers and policy makers as it adds knowledge to the existing research. It explored the various gaps and trigger further research by scholars and other stakeholders. Experts of the research published in renowned journals making it accessible to students, scholars, government agencies and local authorities as the policy makers in performance contract related issues.

## **1.6 Scope of the Study**

The conceptual scope of the study was on the employee perceptions regarding the determinants of performance contracting results in Kenyan local authorities. This study was conducted from August 2012 to October 2012. The study covered all local authorities in Kenya, which operate under the laws of Kenya Cap 265. The Local Governance System in Kenya comprises the Ministry of Local Government and the local authorities. Kenya currently has 175 Local Authorities (GoK 2011).

## **1.7 Limitations of the Study**

Although this study covers all local authorities in Kenya, it only used a sample to draw conclusions and inferences, which was as per the result design. Time factor was a limitation as the respondents took longer time than expected. At times the

researcher had to personally travel to some remote local authorities where the research assistants failed to make headways. This escalated the costs beyond the budget.

Several limitations were experienced in this study, for example resistance from respondents primarily because they were suspicious of the study intentions although they were assured of their anonymity and the findings were to be used purely for academic purposes. The accuracy of the results depended on the honesty of the respondents, though with the assurance given to officers it was the hope of the researcher that honest responses were given. The other limitations included financial problems in terms of photocopying, secretarial services, transport costs and the researcher found a problem during the research because of lack of experience. The respondents may feel intruded when requested to complete a questionnaire which requires them to disclose confidential information. In order to mitigate this short coming the respondents were assured of confidentiality and ethical handling of the information.

Another limitation was as a result of the expected response rate. Naturally, respondents are usually suspicious of researchers because they are not sure of how the information is going to be used and whether the researcher maintained the confidentiality. The common apathy to responding to questionnaires was identified in advance but the researcher explained the purpose of the study and the likely benefits in addition to giving an assurance of confidentiality. The assurance was



taken positively and this improved the response rate.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter reviews literature on performance contracting. It discusses the key theories on performance and further develops a conceptual framework for the study. Further the chapter reviews relevant literature including highlighting research gaps.

#### **2.2 Theoretical Literature Review**

For purposes of this study the researcher will review the following theories; Agency theory, Systems theory, Goal setting theory. The origin of the theory was discussed followed by a description of the arguments advanced by the theory. The relevance of the theory to study variables was discussed and in particular, the discussion revealed how the theory informed the study.

##### **2.2.1 Agency theory**

According to Jensen & Meckling (1976), principal–agent theory in economics rests on several key assumptions about human and organizational behavior. Individuals and organizations are assumed to rationally pursue their self-interest, resulting in divergence of interests between the principal (owner) and agent (producer). The separation of ownership from production increases the cost and difficulty involved in monitoring the agent’s behavior. This creates information asymmetry that benefits the agent as he goes about performing a task on behalf of the principal. Under these conditions, two agency problems arise: moral hazard and adverse selection.

Moral hazard refers to instances of opportunistic behavior by the agent. Divergent interests and information asymmetry favoring the agent create opportunities for the agent to engage in behavior that maximizes his utility but that conflicts with the goals of the principal (Kiser, 1999). Monitoring allows the principal to detect opportunistic behavior and align the agent's behavior with his own goals, thus helping to improve the outcomes of contractual relationships (Kiser, 1999). The theory is relevant to this study as the implementers of Performance Contracting Act as the agents of the departments and must act in good faith to fulfill the principles of the Principal.

The theory is relevant to this study as the implementers of Performance Contracting Act as the agents of the departments and must act in good faith to fulfill the principles of the Principal. The theory informs the variable of leadership style, financial management practices, governance practices and human resource practices. Without addressing the principal agent problems, financial mismanagement practices such as fraudulent practices arise. Without addressing the principal agent problems, poor governance practices such as conflict of interest arise. The presence of principal agent problems also implies that leaders fail to apply transformational leadership styles. The above negative practices brought about by Principal Agent problems have the effect of contributing negatively to performance contracting results.

### **2.2.2 Systems theory**

Bertalanffy (1972) defines system theory as the trans disciplinary study of systems in general, with the goal of elucidating principles that can be applied to all types of systems at all nesting levels in all fields of research. The term does not yet have a

well-established, precise meaning, but systems theory can reasonably be considered a specialization of systems thinking, a generalization of systems science, a systems approach. The term originates from Bertalanffy's General System Theory (GST) and is used in later efforts in other fields, such as the action theory of Talcott Parsons and the system-theory of Niklas Luhmann. According to Patton (2006) systems framework is fundamental to organizational theory as organizations are dynamic entities that are goal oriented. The systems approach to organizations relies heavily upon achieving negative entropy through openness and feedback.

The theory is relevant to the study because all organizations interact with outside world as they are often systems. Sections of organizations interact amongst themselves in exchange of key information and materials. The theory is important in this study as the Local Authorities are often systems interacting with outside world in service delivery and other inputs. In this regard, it is an important tool in diagnosing management deficiencies and providing principles through which they can be remedied. Systems theory is therefore evident in the leadership and governance styles adopted by the local authorities

### **2.2.3 Goal Setting Theory**

Hastings (2011) stated that clear goals and appropriate feedback motivates employees. He also went on to say that when employees worked towards a goal, it spearheaded a major source of motivation within the employees to actually reach the goal. Locke's study also threw light on the relationship between goals and performance. According to his study, specific and difficult goals conduced to better results and performance as compared to vague, randomly set or easy to do goals.

Hastings (2011) suggests that not only does the assignment of specific goals result in enhanced performance but that, assuming goal acceptance, increasing the challenge or difficulty of goals leads to increased motivation and increases in performance.

Goal-setting theory places less emphasis on rewards and stresses the motivating power of defining appropriate work goals and engaging employee commitment to them (Marsden, 2001). A number of studies have attempted to examine the relationship between goal-setting and performance. It was found that the majority of evidence suggests strong support for the theory. In fact, it is where managers were not sure of their objectives, doubts into the credibility of the system evolved. Marsden and French, (2001), found that when employees thought performance contracting had led managers to set targets more clearly (because they have to appraise them afterwards), and if they thought their last appraisal fair, then they were more likely to experience positive incentive effects .

Goal setting theory is at the centre of performance contracting. The theory is therefore relevant to this study as performance contracts have a lot in setting goals and agreeing with the Ministry on the same. They are evaluated on the goals they have set themselves which form the basis of performance contracting. Further, the financial management practices, human resource management practices and governance practices adopted by local authorities stem from the goal theory premise.

#### **2.2.4 Resource Based View Theory**

A resource-based view (RBV) of a firm explains its ability to deliver sustainable competitive advantage when resources are managed such that competitors cannot imitate their outcomes, which ultimately creates a competitive barrier (Mahoney and Pandian 1992 cited by Hooley and Greenley 2005, Smith and Rupp 2002). RBV explains that a firm's sustainable competitive advantage is reached by virtue of unique resources being rare, valuable, inimitable, non-tradable, and non-substitutable, as well as firm-specific (Barney 1999 cited by Finney, Campbell and Powell (2005), Makadok 2001).

Finney *et al* (2005), Makadok (2001) wrote about the fact that a firm may reach a sustainable competitive advantage through unique resources, which it holds, and these resources cannot be easily bought, transferred, or copied, and simultaneously, they add value to a firm while being rare. It also highlights the fact that not all resources of a firm may contribute to a firm's sustainable competitive advantage. Varying performance between firms is a result of heterogeneity of assets (Lopez 2005, Helfat and Peteraf 2003,) and RBV is focused on the factors that cause these differences to prevail (Grant 1991, Mahoney and Pandian 1992, cited by Lopez 2005).

The resource based view theory is relevant to the current study because local authorities need to identify their resources, and how they can use them to deliver quality services as stipulated in the performance contract. This theory informs both the human resource management practices and financial management practices variables.

### **2.2.5 Governance Theory**

Governance refers to the development of governing styles in which boundaries between and within public and private sectors have become blurred. The essence of governance, and its most troublesome aspect, according to its critics, is a focus on mechanisms that do not rest on recourse to the authority and sanctions of government (Bevir, 2013).

Governance approach is seen as a new process of governing, or a changed condition of ordered rule; or the new method by which society is governed (Bevir, 2013). Similarly, in the scholarship, that has followed the ‘Reinventing Government’ themes of public effectiveness; much has been written of New Public Management practices by which governance theory is put into action (Davies, 2011). Governance is about autonomous self-governing networks of actors (The emergence of self-governing networks raises difficulties over accountability). Governance networks, in Stoker’s terms, involve not just influencing government policy but taking over the business of government (Rhodes, 2007).

According to Stoker (2007), Governance recognizes the capacity to get things done which does not rest on the power of government to command or use its authority (But even so, government failures may occur.) Stoker notes that within governance there is a concerted emphasis on new tools and techniques to steer and guide. The language is taken directly from reinventing themes. The dilemma of governance in this context is that there is a broader concern with the very real potential for leadership failure, differences among key partners in time horizons and goal priorities, and social conflicts, all of which can result in governance failure. Stoker

draws on Goodin as he suggests that design challenges of public institutions can be addressed in part by “revisability, robustness, sensitivity to motivational complexity, public dependability, and variability to encourage experimentation (Bevir, 2013 ).

This theory is relevant to this study because it explains how leadership failures and mismanagements of public resources can lead to poor service delivery. It gives a guideline to the management in local authorities on how to lay down good strategic plans that are sensitive to all citizens and can give the public good dependability of the institutions. This theory informs two variables of the study, which are governance practices and leadership styles.

### **2.3 Conceptual Framework**

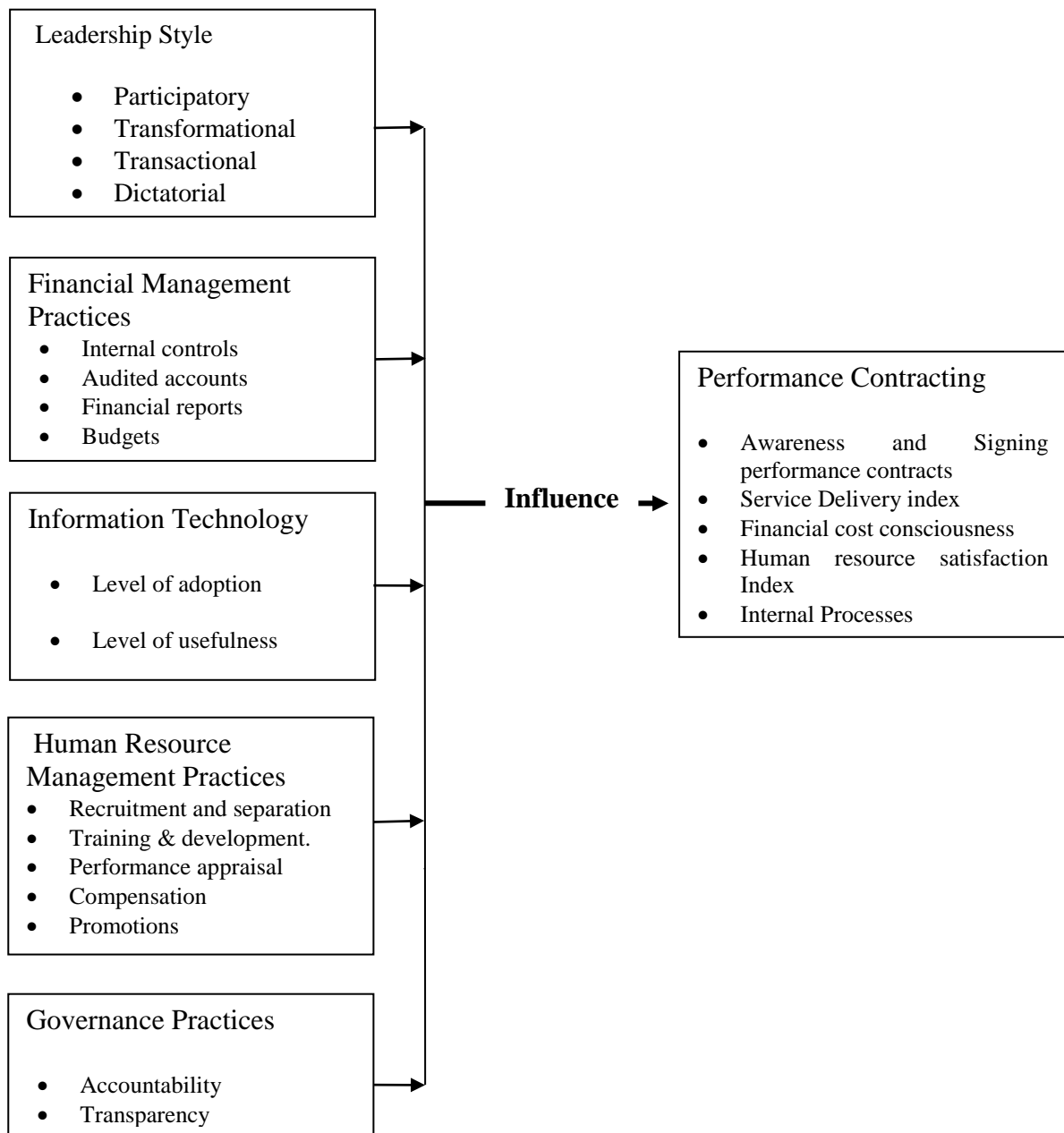
The development of the conceptual framework was arrived at after reviewing the work of Akaranga (2010), Sean (2009) and Schwella (1988). The reviewed studies asserts that performance management process typically involves four main stages namely work plan management, skills development, performance monitoring and evaluation, and rewarding of outstanding performance. The current study recognizes the fact that the outcome of each stage is affected by various factors.

Rewarding of outstanding performance stage is dependent on human resource management practice such as compensation practices. It is also dependent on the financial management as the rewards need to be budgeted for in the first place. Lastly, as indicated in Akaranga (2010), Fernandez (2010), Nyembezi (2009), Ohemeng (2009), Bouckaert, Verhoest and De Corte (1999) proper management and leadership is an important ingredient in managing the four step process of



performance contracting. Therefore, five independent variables were identified namely; financial management practices, corporate governance practices, Information technology, human resource management practices and leadership style.

The dependent variable was arrived at after reviewing the work of Bouckaert, *et al.*, (1999) who argued that performance contracting has a direct effect on the productivity of the organization. This effect can be examined from four fronts: Human resource management, Financial management and cost consciousness, internal organization and external relations. These are basically the outcomes of performance contracting which are aggregate into a final composite score. The derived conceptual framework is shown in Figure 2.1.



**(Independent Variables)**

**(Dependent Variable)**

**Figure 2.1: Conceptual Framework**

## **2.4 Empirical Literature Review**

This section will focus on how the independent variable relate to the dependent variable.

### **2.4.1 Leadership Style and the Effectiveness of Performance Contracting**

The word “style” is roughly equivalent to the way in which the leader influences followers (Luthans, 2002). Therefore leadership style is the personal approach of guiding a group of people by providing purpose, direction and motivation. There are many approaches to leadership styles that exist today. Three leadership styles exist which are: democratic, autocratic and laissez-faire. Best leadership use different styles at differing situations as depicted in Hersey- Blanchard Situational Leadership Theory (George, 2003). Effective leadership is not simply based upon a set of attributes, behaviour or influence but a wide range of abilities and approaches in very many corporate situations.

According to Kouzes and Posner (2007), participative leadership seeks to involve other people in the process, possibly including subordinates, peers, superiors and other stakeholders. Most participative activity is within the immediate team. Participatory leadership is also known as consultation, powerment, joint decision making, democratic leadership, management by objectives and power sharing. Participative leadership can be a shame when managers ask for opinions and then ignore them. This is likely to lead to cynicism and feelings of betrayal.

Obongo (2009) conducted a study on implementation of performance contracting in Kenya. To reverse the trend of falling service delivery, Kenya introduced performance contracting not only to improve service delivery but also to refocus the mindset of public service away from a culture of inward looking towards a culture of business as focused on customer and results. The author argues that whereas the general public and even some high-ranking public servants may very much welcome the idea of performance contracting and measuring performance, it might not be readily accepted by everybody. This is especially those who might feel exposed (negatively in terms of poor performance) by the outcomes. In other cases, resistance may come in the grading structure, those who feel that no grading system can even out the effects of lumping big and small ministries together. In the state corporations similar sentiments can be expressed, that it is unfair to grade state corporations operating in different sectors of the economy together.

Obongo (2009) notes that despite the application of composite score, which allows for comparisons of different ministries and state corporations, some ministries and even state corporations would still prefer to be grouped and ranked differently citing their uniqueness emerging from their areas of service delivery (industry), size in terms of turnover, number of employees and even their mandate. The separation of the negotiation committee and the evaluation committee may have its challenges too. It may be argued that for consistency and to help put the evaluation into perspective, it may be advisable for the same team that has done the negotiation to also undertake the evaluation. The reviewed study compares well with the current study as it endeavors to identify the determinants of the effectiveness of performance

contracting in service delivery in local authorities in Kenya, for instance resistance, complexity in the design of the performance contract, reward management as well as the challenge of the separation of the negotiation committee and the evaluation committee. However, the studies differ in term of scope and methodology. The reviewed study was generalized in Kenya while the current study is more specific to local authorities. In addition, while the reviewed study was a literature based desk study, the current study is a field study.

Schermerhorn (2002) argues that effective leaders delegates duties to their subordinates Delegation is the assignment of one or more meaningful tasks or responsibilities either operational managerial in nature to a subordinate or subordinates. According to Schermerhorn (2002) successful leaders motivate their staff to enhance productivity. Motivation accounts for the level direction and persistence of efforts expended at work. Employees become motivated when leaders set guidelines, empower them through creativity and innovation and commends them for work done. A highly motivated person works hard at a job, an unmotivated person does not. A manager who leads through motivation does so by creating conditions under which other people feel consistently inspired to work hard. Obviously, a highly motivated workforce is indispensable to the achievement of sustained high performance results (Vroom & Jago, 1991).

Transformational leaders are true leaders who require diverse skills associated with charismatic and visionary leadership. They have a zest and enthusiasm, add new value and look after initiative. Transformational leadership occurs when leader and follower unite in pursuit of higher order or common goals. Here, one or more

persons engage with others in such a way that leaders and followers raise one another to higher levels of motivation and morality. This implies that the leader-follower relationship is one which the purpose of both become fused creating unity and collective purpose (Avolio & Gardner, 2005)

Transformational leadership influence is practised through motivational processes that elevate organizational members' aspirations for work and inspire higher levels of commitment to the organization and its purposes. Leaders who seek to not only to recognize potentials but also go a notch higher into satisfaction of those needs only comparable to those of Maslow. Transformational leadership has a stronger positive influence with subordinate ability, satisfaction, performance and motivation in comparison to transactional leadership, resulting into leader effectiveness, extra effort in duties and an air of satisfaction (Cooper, Scandura, & Schriesheim, 2005).

Transformational leaders are known to maximize on vision. They are idealized, trusted and respected by their follower; establish intense emotional bond with followers; inspire and motivate followers to commitment and willingness to share vision; they develop personal relationship with each individual; allow creativity and create a supportive climate in the organization for personal actualization. Transformational leaders encourage critical thinking and innovation towards their job resulting into intellectual stimulation. Followers in turn are willing enough to engage in self-interest as the leader appeals to their values and sense of higher purpose. It involves a higher order of exchange beyond tangible rewards (Avolio & Gardner, 2005)

Transactional leadership style is more task-oriental that is comparable to the scientific approach to management. Completion of a task is commensurate rewards given, just like the “carrot and stick (contingent rewards). Some researchers like it to the scientific mode of management. The leaders specifies standards for compliance as well as what happens in non-compliance. Close monitoring for deviances, mistakes and errors, and taking corrective action when incidences occur (management-by-exception-active). Another factor is the concept of management-by exception (passive), where leaders make no clear guideline or goals, and taking action only when something is not going as per the effectiveness of anticipated occurs. Passive leadership makes subordinates more likely to avoid initiating change and prefer maintaining status quo (Antonakis, Avolio & Sivasubramaniam, 2003). Lastly, there is the laissez faire or avoidant leader who avoids responsibility as supervisor, exhibiting low initiative and participation but tries closeness to subordinates. The leadership here aims at getting things done and satisfaction is relative (Avolio & Gardner, 2005; Luthans, 2002).

Akaranga (2010) conducted a critical review of performance contracting in the Kenyan Public Sector in readiness for a study, which intended to assess the impact of the performance contracting on service delivery. The paper therefore described and examined the concept, process, utilization of resources and the strategies that may be put in place to facilitate the realization of the performance contract. The author cites Sean (2009) and Schwella (1988) who asserts that performance management process typically involves four main stages namely work plan management, skills development, performance monitoring and evaluation, and rewarding of outstanding

performance. The author also highlights the seven step process by Moy (2005) which consists of, a) an integrated solutions team whose main task is to ensure that senior management involvement and support is in place (b) description of the problem to be solved (c) examine the private sector and public sector solutions (d) develop a performance work statement or statement of objectives (e) measurement and management of performance (f) selection of the right contractor (g) managing performance through reviewing and monitoring performance.

In conclusion, Akaranga (2010) asserted that performance contracting as an implementing tool in strategic planning is of great importance under the new public administration. However, the author noted that there is need for a good definition of outputs and solid performance measures. In addition, a well-defined training program for the public servants to support implementation of performance contracting was necessary. It was also necessary to address the following issues; a) stability and availability of resources at all time; b) the political top leadership must respect the operational autonomy of the contracted organizations/ministries; c) contract management should be accompanied by performance-oriented change in the public service structure and management culture. Culture that empowers staff to embrace and manage change is necessary. Therefore, management instruments, focusing on performance and cost in the field of human resources and financial management should be developed in an integrated manner. The study compares well with the current study since it highlights the various factors that hinder performance contracting from improving service delivery. However, the reviewed study differs



from the current study since it was a literature review based study while the current study is a field based study.

Shirley and Xu (2001) conducted a study on the Empirical effects of performance contracts in China. This paper, using a panel data set, analyzes the experience with performance contracts in roughly 500 Chinese State owned enterprises (SOEs). The authors argued that performance contracts' effects were on average negative because of the large losses associated with poorly designed performance contracts. Successful performance contracts were those that featured sensible targets, stronger incentives, longer terms, managerial bonds, and were in more industries that are competitive. The study differs from the current study, as it did not address the factors that inhibit performance contracting from improving local service delivery. It only identified poorly designed performance contracts as a factor and failed to consider the role of capacity constraint such as human resources financial management practices, leadership and Information technology. The current study differs from the reviewed study because it used 175 local authorities while the reviewed study use 500 state owned enterprises (SOE).

#### **2.4.2 Financial Management and Performance Contracting**

Financial management is that managerial activity which is concerned with the planning and controlling of the firms financial resources (Pandey, 2010). According to Paramasivan and Subramanian (2010), the main objectives of financial management are profit maximization and wealth maximization. Profit is the parameter that measures the efficiency of the business concern and for profit to be

maximized the organization has to reduce business risks. Best financial management practices detects that sound financial and accounting procedures and reporting systems are put in place to enhance production of financial statements meeting the threshold of international financial reporting standards and Generally Accepted Accounting Principles (GAAP).

Paramasivan and Subramanian (2010), asserts that effective internal control of financial reporting has become a legal obligation and companies are required to establish and maintain a system of internal control that provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. According to Pandey (2010), the credit policy of the firm affects working capital by influencing the level of book debts. Slack collection procedures can increase the chance of bad debts hence impairing the operations of the organization.

Each local authority has its own unique set of circumstances and risks that will affect the design and implementation of its own controls (Local Government Management Guide, 2010). Before determining which controls should be implemented, officers should assess the risk of fraud or errors occurring and remaining undetected. After identifying risks, officers can design a set of internal controls to mitigate or reduce those risks. Miring'uh and Mwakio (2006) assert that there is overwhelming evidence that recent reform measures, including rapid results initiatives (RRI) have failed to stop immense hemorrhage of revenue at the City hall. A recent damning forensic report by the Kenya Anti-Corruption Commission, states that City hall continues to lose a huge portion of parking fees, land rates or rent to corrupt officials

exploiting weak financial management systems (KACC, 2007). According to KACC (2007), perpetrators of the rip-off at the council had devised a complex system to block evidence of unremitted money estimated to be worth millions of shillings. Key to the racket is concealment of the paper work involving such money, including bouncing cheques, tampering with the numbering of parking fees receipts and the filing of fraudulent expenditure claims at the council's cash office. The haemorrhage of revenue from Local Authorities may have led to low operating revenue to fulfill their service delivery targets, which are outlined in the performance contracts.

Bouckaert et al. (1999) assert that there is also a need to enhance the performance orientedness of the different financial management instruments (budgets, accounts and audits) and the coherency and consistency of these instruments. More coherence and consistency would mean that budget; accounts and audits are based on the same output and cost categories. Most organisations with contracts develop accrual and cost accounting but fail to use the resulting cost information in their budget estimates. Compliance audits remain more important than performance audits. The theory of contracting suggests that to improve performance, performance contracts must not only reduce the information advantage that managers enjoy over owners but also must be motivated through rewards or penalties to achieve the contract's targets.

Opiyo, (2006) researched on financial sources of finance in local authorities and observed that many of them were suffering financially and needed assistance. This resulted from unclear and conflicting objectives, poor management and lack of accountability. Though this responded to addressing financial status in local

enterprises, it did show over reliance on exchequer. However, he did not bring out how public enterprises can control and avoid over reliance on exchequer.

Spivey (2005) conducted a study on implementing public contracting decisions and identifying firm characteristics, which predict high performance. The proposed research was designed to contribute to the knowledge base of public contracting, i.e. contracting where government agencies contract with private firms to deliver highly skilled services. Specifically the research focused on identifying characteristics of the firm, which predicted that the firm behavior toward the agency in terms of level of performance in fulfilling the contract. The variables of this study focused on the competitiveness of the contracting environment, quality of contractor staff, contractor's financial management capacity and qualities of the agency to explain factors, which will either support or hamper the implementation effort and contracting outcomes. The study compares well with the current study as they both try to explain the factors that hinder performance contracting in improving service delivery. The two studies share three variables; quality of contractor staff, contractor's financial management capacity and performance contracting outcomes. However, the two studies differed since the current study focused on local authorities while the reviewed study was on third parties contracted by government agencies to deliver high skilled services.

### **2.4.3 Information Technology and Performance Contracting**

From time immemorial, information has been one of man's priceless commodities, man's preoccupation since then has been to develop technologies that will facilitate the collection, storage, retrieval and communication of information through the

fastest possible means (Ifidon, 1999). The importance of information technology cannot therefore be over emphasized.

Information Technology (IT is the acquisition, processing, storage and dissemination of vocal, pictorial, textual and numerical information by a micro-electronics-based combination of computing and telecommunications. Set of tools, processes, and methodologies (such as coding/programming, data communications, data conversion, storage and retrieval, systems analysis and design, systems control) and associated equipment employed to collect, process, and present information. In broad terms, IT also includes office automation, multimedia, and telecommunications (Aliyua and Issa, 2002; Issa, 2002). Jager and Lokman (1999) see ICT as a generic term referring to technologies that are being used for collecting, storing, editing and passing of information in various forms. According to OECD (1998), ICT is a “combination of manufacturing and services industries that capture, transmits, display data and information electronically”. In an attempt to provide comprehensive definition of ICT, United Nations Educational Scientific and Cultural Organization (UNESCO (2006) gives the definition as forms of technology that are used to transmit, store, create, share or exchange information.

By way of justifying the use of IT in organizations, Ajayi (2001) asserted as technological progress produces more capable and less expensive Information Technology (IT), there is a strong impetus towards developing and using computer systems in all human activities.

Awe (1997) is of the view that IT helps to ensure a more accurate and cost effective knowledge to support decision-making, reduces mental and physical efforts in solving certain tasks; reduces or eliminates inefficient practices, it rivals the manual system and improves services rendered to customers.

The imperativeness of information technologies in local government administration cannot be overstressed. For instance, they bring about quick and accurate management of information. Hunter (2001) identified some information technologies coupled with the way they can help to foster Local Government administration. They are:- Customer relationship management systems, typically used in call and contact centers, give local authorities new tools to understand and manage the contact which they receive and provide statistical data for service planning. In the light of the foregoing, imperativeness of IT in local government administration, Lind (1996) opined that it could be the major factor by which productivity in public administration can be increased. Sachs (2000) stated that government entities that do not keep up with information technology often collapse and hence unable to achieve socio-economic growth. Arising from the value of IT, Hunter (2001) admonished that local government councils, which do not move forward, risk being seen as old fashioned and unresponsive.

To enhance the use of ICT in local authorities, the Ministry of Local Government introduced Local Authority Integrated Financial Operating Management Systems(LAIFOMS) in 1998 with two local authorities namely Mavoko and Nyeri Municipal Councils as the pilot. This was a reaction to the reforms introduced for single business permits in the local authorities. LAIFOMS has become standard

software for all the local authorities, which has positively improved data management in local authorities. According to local authorities reform programme, LAIFOMS has been one of the most success stories of reformed in the local authorities (Ministry of Local Government Reform Programme, 2012). Uwaifo and Kabadi, (2006), asserts that local government will enjoy several benefits namely budgeting, communication increased speed of operations thus saving time, enhanced information accuracy, cost reduction and improved local government administration.

Muganda-Ochara and Van Belle (2008) conducted a study on Managing the E-Government adoption process in Kenya's local authorities. The authors argued that technologies of E-Government have increasingly become one of the alternatives to enable governance at the local levels. The situation is especially poignant in developing countries where there are increasing calls to improve governance to achieve a better life for their citizens. This study sought to investigate managerial processes involved in the adoption of E-Government within Local Authorities in Kenya. The research relied on secondary data as well as interviews of various stakeholders involved in the adoption process.

The analysis revealed that to a large extent, the projects are somewhat disaggregated, with weak mobilization of actors. The study is significantly similar to the current study as it recognizes that the state of ICT is a factor inhibiting performance contracting for improving service delivery. However, the study differs from the current study as it does not address the role of other dependent variables such as leadership style, human resource management, financial management, information technology and governance.

Mittullah and Waema (2007) conducted a study on ICTs and financial management in local authorities in Kenya, Case Study of Mavoko and Nyeri Municipal Councils. The author asserted that most of these authorities, like others in Africa, rely on manual file based information storage with hardly any feedback and dissemination taking place. An overview of the local authorities reveals a high demand for information services which include: ICT training, internet and e-mail access, desktop publishing, word processing, printing and photocopying, but availability of these services is limited at the local authorities level. The authors argued that Although ICT programmes are in an infancy stage in few local authorities in Kenya, it is assumed that an efficient use of ICT has potential of reversing the trend of ineffective governance and improving participation, transparency, accountability, responsiveness, effectiveness and efficiency. This compares well with the current study since it recognizes the role of ICTs in facilitating service delivery of local authorities. However, the study differs from the current study since it relied on both secondary and primary information. The secondary sources included a review of literature, including government and academic publications, and reports; while the primary information gathering will include survey where questionnaires were administered to staff across the various departments in the sampled local authorities.

#### **2.4.4 Human Resource and Performance Contracting**

According to Armstrong (2006), human resource management (HRM) is defined as a strategic and coherent approach to the management of an organization's most valued assets – the people working there whom individually and collectively contribute to the achievement of its objectives. Human resource management includes conducting



job analyses, planning personnel needs, and recruitment, selecting the right people for the job, orienting and training, determining and managing wages and salaries, providing benefits and incentives, appraise performance, resolving disputes, and communicating with all employees at all levels.

Lings (2004) emphasizes the importance of human resource management when he pointed out that many researchers and employers neglect one important focus, the demand of internal employees, especially those who directly get in touch with customers. Because the attitude and behaviour of employees interacting with customers would influence the feeling and behaviour of the customers when they get the service, it is quite important for managers to efficiently define and manage the way their employees provide the service in order to make sure that their attitude and behaviour are good for providing the service.

Ohemeng (2009) conducted a study on the Constraints in the implementation of performance management systems in developing countries. A case study of Ghana was taken. The author noted that Social cultural norms influence public management practices and organizational decision making. In addition, the role of political authorities, as well as of administrative leadership, is also vital to the success of performance management. The author reckons that such leaders should be seen at the forefront of any reforms. The shortage of experienced staff, inadequate remuneration, the poor morale of the public service, and unwieldy administrative systems have weakened the capacity of institutions to carry out any meaningful reform agenda.

The study compares very well with the current study as it addressed the factors hindering performance contracting from improving service delivery. However, the two studies differ as far as methodology is concerned. The reviewed study used a literature review desk study methodology while the current study used a field study methodology.

#### **2.4.5 Governance and Performance Contracting**

UNDP (2006) defines governance as the exercise of political, economic and administrative authority to manage a nation's affairs at all levels. "It is the complex mechanisms, processes and institutions through which citizens and groups articulate their interests, exercise their legal rights and obligations, and mediate their differences." According to Asian Development Bank (2007) governance is the manner in which power is exercised in the management of a country's social and economic resources for development. Governance means "the way those with power use that power." As defined by World Bank (2000), governance is the traditions and institutions by which authority in a country is exercised for the common good. This includes the process by which those in authority are selected, monitored and replaced, the capacity of the government to effectively manage its resources and implement sound policies, and the respect of citizens and the state for the institutions that govern economic and social interactions among them."

According to UNDP, (2006), good governance is among other things participatory, transparent and accountable. In good governance laws, regulations and codes of conduct should be fair enforced impartially. Transparency is built on free flow of information. Lack of transparency, weak accountability, lack of responsiveness and inefficiency also compromise good governance. In a corrupt government, public resources are diverted from meeting the needs of the poor and benefits do not reach the intended beneficiaries. A weak governance system, compromises the delivery of services and benefits to those who needs them most.

According to Mburugu, (2005) decision making in local authorities settings is a political process. In such a situation, decisions are typically not purely rational but rather incremental, adaptive and predetermined by interactions of political influence and sudden changes in the environment. He further states that strategic planning has to be accomplished in a pluralistic environment where power is distributed among many and varied interest groups. Mburugu (2005) in his study stated that, one of the main reasons for poor performance, low management morale and lack of management accountability in local authorities Maua included, is the pervasive tendency of politicians and ministries to treat local authorities as government departments. In addition, the requirements that all major decisions are made or approved by the Minister of Local Government leave no room for the local authorities to be autonomous. Mburugu (2005), also states that political interference compromises government systems of the local authorities leading to corrupt practices and inefficiency.

James (2003) states that, performance contracts are now being advocated as a mechanism to increase the autonomy of the local authorities. Without autonomy, local authorities cannot run efficiently. It is therefore important for local authorities to have the necessary amount of autonomy to make decisions and act on them.

#### **2.4.6 Performance Contracting**

Performance contracting is a freely negotiated agreement between government acting as the owner of a public enterprise and the enterprise itself in which the intentions, obligations and responsibilities of the two parties are freely negotiated and then clearly set it out. It organizes and defines tasks so that management can perform them systematically and with reasonable probability of accomplishment. It reduces quantity of controls and enhances the quality of service. The performance contract privatizes the style of public sector management by focusing on results and not processes. It also measures performance and enables recognition and reward of good performance and sanction bad performance (Omboi & Francis 2011).

To arrive at the measuring of the raws scores the evaluation of the performance of public agencies entailed the rating of actual achievements against performance targets negotiated and agreed upon at the beginning of the financial year. The resultant differences were resolved into raw scores, weighted scores and ultimately denominated into Composite Scores. The performance rating of the institutions was based on the following attributes and criteria: **Excellent** - Achievement between 30% and 100% above target, **Very Good** -- Achievement of the set target in the performance contract up to 129.99% of the target, **Good** - Achievement between

70% and 99.99% of the set target, **Fair** - Achievement between 50% and 69.99% of the target, **Poor** - Achievement between 0% and 49.99% of the target (GOK, 2011).

**Table 2. 1: Attribute Criteria**

<b>Performance Grade</b>	<b>Composite Score</b>
Excellent	1.00-1.49
Very Good	1.50-2.49
Good	2.50-3.49
Fair	3.50-3.59
Poor	3.60-5.00

**(Source: GoK Evaluation of Performance Contracting 2011)**

Computation of the Raw Score entailed determining the proportion of the span (as indicated above) which would go into the achievement units (or values) in order to determine wherein within the range, the achievement falls. It therefore presumes the criteria value range in which the specified achievement level falls is already known. The methodology for calculating raw score is dependent on criteria value range in which achievement falls. It is more like measuring the distance which performance has “traveled” inside the span of respective range. It is therefore not the same for different criteria value ranges.

Step 1: (Calculation of the Variance) Determine the criteria value range where the actual performance falls, as follows:

(Where T= target and Xa = Actual achievement):

(i) **Excellent** =  $1.3 T \leq Xa \leq 2T$

(ii) **Very Good** =  $T \leq Xa < 1.3T$

(iii) **Good** =  $0.7T < Xa < T$

(iv) **Fair** =  $0.5T \leq X_a < 0.7T$

(v) **Poor** =  $0 \leq X_a < 0.5T$

The performance contracting was expected to improve the service delivery in public sector and improve the customer satisfaction levels. In the local authorities, performance indicators included compliance with a budget, utilization of funds on programmed activities evaluation to ensure compliance with the budget development of a strategic plan and compliance with the strategic plan. Other performance indicators included development of a service deliver charter and full implementation of the service delivery charter, development of baseline surveys to measure the level of customer and employee satisfaction, full implementation of the recommendations from baseline surveys, ISO certification and provision of adequate working tools to the employees amongst others.

One of the first things local authorities are required to do before entering into performance contract is to develop strategic plans. A strategic plan enables an organization to be better focused on its core business. It also helps the local authorities to clearly set out its objectives and action plans that will enable it achieve the targets. In effect what the councils are called upon to do is to plan performance. The best performing local authorities had to achieve good scores in the said indicators which they had signed for. On the other hand poor performing authorities had low mix of the indicators meaning that their performance was not as per the signed contracts. This study measured the dependent variable (effectiveness of performance contracting) using the said performance indicators.

## **2.5 Critique of Existing Literature**

This section discusses the empirical literature. It reviews previous studies on the area of factors hindering performance contracting from improving service delivery in local authorities. Studies on this area will be compared and contrasted on the basis of scope, methodology, objectives, variables, conclusions and research gaps.

Gao (2010) conducted a study on ‘Hitting the Target but Missing the Point: The Rise of Non-Mission-Based targets in performance measurement of Chinese Local Governments’. Drawing on data collected in a 5-year field research project in one inland Chinese county, this article examines the causes, dynamics, and consequences of the rise of non-mission-based targets in local China. The authors argues that that non-mission-based targets are largely an expedient policy adopted by Chinese reformers to deal with the pressing political need to ensure effective governance in local areas. However, the implementation of a performance measurement system with non-mission-based targets has unexpectedly given rise to serious governing problems. In the long run, the widespread use of non-mission-based targets may create daunting challenges that jeopardize the basis of governance. The current study differs significantly from the reviewed study in various conceptual areas for instance the reviewed study did not address the factors inhibiting performance contract from improving service delivery. The study was also carried out in China, an emerging economy while the current study is carried out in Kenya a developing economy.

Shirley and Xu (2001) conducted a study on the Empirical effects of performance contracts in China. This paper, using a panel data set, analyzes the experience with performance contracts in roughly 500 Chinese State owned enterprises (SOEs). The authors argued that performance contracts' effects were on average negative because of the large losses associated with poorly designed performance contracts. Successful performance contracts were those that featured sensible targets, stronger incentives, longer terms, managerial bonds, and were in industries that are more competitive. The study differs from the current study as it did not address the employees' perception on determinants of the effectiveness of performance contracting in improving local service delivery. It only identified poorly designed performance contracts as a factor and failed to consider the role of capacity constraint such as human resources financial management practices, leadership and Information technology. The current study differs from the reviewed study because it will use 175 local authorities while the reviewed study use 500 state owned enterprises (SOE).

Nyembezi (2009) study focused on exploring and finding the ideal performance management system suitable for the South African Broadcasting Corporation(SABC) by establishing an understanding of employees' experiences and perceptions of the previous and a proposed performance management systems and their value to SABC employees. This was done by eliciting how employees see, make sense of and interpret their everyday experiences of performance management systems, in order to develop a more suitable inclusive performance management system. A qualitative study was used to seek answers to the research questions. A focus group interview



was selected for data collection. Findings indicated that there was a fair understanding of the previous performance management system but there had been poor implementation of the system. The participants concurred that the previous performance management systems in the organizations were not adding any value to their lives. They pointed out that there was no reward in place for high performers and no action taken for non-performers, and this impacted negatively on how implementation was perceived and experienced.

Nyembezi (2009) notes that for a performance management system to be effective, it should incorporate updated job descriptions, performance measures and standards, as well as evaluator training and guidelines for improvement, employee input, compensation and/or rewards. The reviews study differs from the current study as it only addresses one factor that inhibits performance contracts from improving service delivery that is, human resource management. The study failed to recognize role of governance, financial management and leadership in facilitating the outcome of performance contracting. The study is also dissimilar to the current study as it is considered a parastatal as opposed to local authorities.

Fernandez (2010) conducted a study an empirical analysis on understanding contracting performance. The study explored the outcomes of contractual relationships between American Local Governments and private service providers. The analysis, which is based on a unique data set of more than 400 contractual relationships, focuses on the effects of contract monitoring, competition, and trust on contracting performance. The results of the analysis indicate that trust has an independent positive effect on overall contracting performance, as well as on eight

specific dimensions of performance. In most of the models tested, monitoring and competition were not related to contracting performance. The relationship between monitoring and contracting performance appears to be more complex than previously thought, involving interactions with moderating variables. Divergent interests and information asymmetry favoring the agent create opportunities for the agent to engage in behavior that maximizes his utility but that conflicts with the goals of the principal. Monitoring allows the principal to detect opportunistic behavior and align the agent's behavior with his own goals, thus helping to improve the outcomes of contractual relationships. The principal can lessen the effects of adverse selection by conducting a thorough ex ante evaluation that requires potential agents to reveal more information about their performance capabilities and history. The study compares well with the current study as it considers monitoring which is an aspect of good governance. In addition, the study addresses the dependent variable of contracting performance outcomes. However, the study fails to address the role of information technology, financial management, human resource management and management and culture.

Kobia and Muhamed (2006) conducted a study among civil servants in order to understand the successes and challenges of implementing performance contracting in Kenya. The authors developed a questionnaire from performance contracting literature and administered it to a sample of 280 senior public service course participants at the Kenya Institute of Administration. Regarding training in performance contracting, the authors observed that only 57 respondents had received training in performance contracting while a majority 212 or 75.5 percent had not

received any. This showed that they would require training on performance contracting elements. In addition, over 174 or 62.1 percent respondents indicated that they did not have adequate resources needed to meet their targets, which could easily adversely affect the individual and Ministry performance. In a nut shell, Kobia and Muhamed (2006) indicated that some of the problems experienced during the implementation of the performance contract were lack of adequate resources, resources not being released on time, and unplanned transfer of staff. The study compares well with the current study as they both have something to say about the determinants of the effectiveness of performance contracting. However, the reviewed study differs from the current study since its scope was 280 senior public service course participants at the Kenya Institute of Administration. The scope of the current study is 175 Kenyan local authorities.

## **2.6 Research Gaps**

A critical review of past literature showed that several conceptual and contextual research gaps existed in the discourse of determinants of the effectiveness of performance contracting in local authorities in Kenya. For instance, the studies by Grapinet (1999), Bouckaert, Verhoest and De Corte (1999), Gao (2010) Shirley and Xu (2001) Fernandez (2010) Spivey (2005) did not comprehensively address all the dependent and independent variables. In all the above, studies were carried out in developed and emerging countries such as USA, France and China. It is therefore possible to argue that the socio economic conditions of developed and emerging economies are somewhat different from that of a developing economy like Kenya.

In addition, the reviewed literature indicates that few studies on the determinants of the effectiveness of performance contracting in local authorities in developing economies in general and Kenya in particular despite the identified benefit of performance contracting . The reviewed local studies Ohemeng (2009), Nyembezi (2009) ,Akaranga (2010), Kobia and Muhamed (2006), Obongo (2009), Muganda-Ochara and Van Belle (2008) and Mittullah and Waema (2007) did not critically address the factors inhibiting performance contracting from improving service delivery of local authorities.

## **2.7 Summary**

The above chapter reviewed the various theories that explain the independent and dependent variables. The reviewed theories are then critiqued for relevance to specific variables. Specifically, the reviewed theories include the agency theory, resource base view of the firm, governance theories, systems theories and goal setting theory. The chapter also explores the conceptualization of the independent and the dependent variables by analyzing the relationships between the two set of variables. Specifically, the conceptual framework is constructed in line with Akaranga(2010), Fernandez (2010), Nyembezi (2009), Ohemeng (2009), Bouckaert, Verhoest and De Corte (1999), Sean (2009) and Schwella (1988). In addition, an empirical review was conducted where past studies both global and local are reviewed in line with the following criteria, title, scope, methodology resulting into a critique. It is from these critiques that the research gap was identified.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter provides details about the methodology adopted to assist in achieving the research objectives. It details research design, research population, sample and sampling techniques, data collection instruments, data collection procedures, pilot testing and data processing and analysis. Henning, Van Rensburg, Smit, (2004) describes research methodology as coherent group of methods that complement one another and that have the ability to fit to deliver data and findings that will reflect the research question and suit the researcher's purpose. According to Polit and Hungler (2004), research methodology is a way of obtaining, organizing and analyzing data and thus methodology decisions often depend on the nature of the research question. In this study, the methodology refers to how the research was done and its logical sequence.

#### **3.2 Research Philosophy**

The positivist philosophy is derived from that of natural science and is characterized by the testing of hypothesis developed from existing theory (hence deductive or theory testing) through measurement of observable social realities (Saunders, Lewis & Thornhill, 2009). This position presumes the social world exists objectively and externally, that knowledge is valid only if it is based on observations of this external reality and that universal or general laws exist or that theoretical models can be developed that are generalisable, can explain cause and effect relationships, and which lend themselves to predicting outcomes (Eriksson and Kovalainen, 2008).

Positivism is based upon values of reason, truth and validity and there is a focus purely on facts, gathered through direct observation and experience and measured empirically using quantitative methods – surveys and experiments - and statistical analysis (Krauss , 2005).

### **3.3 Research Design**

Various scholars have defined research design and the definitions seem to move towards the same direction. Beck (2003) defines research design as the overall plan for obtaining answers to the questions being studied and for handling some of the difficulties encountered during the research process. According to Lavrakas (2008), a research design is the structure, or the blueprint, of research that guides the process of research from the formulation of the research questions and hypotheses to reporting the research findings. A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Kothari, 2004).

Descriptive survey research studies are those studies which are concerned with describing the characteristics of a particular individual, or of a group, whereas diagnostic research studies determine the frequency with which something occurs or its association with something else (Kothari, 2004). Descriptive research is conducted to describe the present situation, what people currently believe, what people are doing at the moment and so forth (Baumgartner, Strong and Hensley 2002). According to Kothari (2004), descriptive research includes surveys and fact finding enquiries of different kinds. The major purpose of descriptive research is description of the state of affairs as it exists at present (Kothari 2004)

In contrast, a correlation survey research involves collecting data in order to determine whether and to what degree a relationship exists between two or more quantifiable variables. Survey research is the most common type of research design which involves determining the views or practices of a group through interviews all by administering a questionnaire. Jackson (2002), states that a survey typically uses a data-collection method with a series of questions administered to a particular population in order to gain information about that population. The degree of relationship is expressed as a correlation coefficient ( $r$ ). The choice of correlational survey research design was because it was used to explore relationships between variables and to predict a subject score on one variable given his or her score on another variable. This method permits one to analyze interrelationships among a large number of variables in a single study. It also allows one to analyze how several variables either singly or in combination might affect a particular phenomenon being studied. The method also provides information concerning the degree of relationships between the variables being studied (Jackson, 2002; Kothari 2004; Mugenda and Mugenda, 1999). This study used descriptive and correlational analysis where the relationship of the independent variables and dependent variable were identified by regressing the independent variables with the dependent variables.

### **3.4 Population**

Parahoo (1997) defines population as the total number of units from which data can be collected such as individuals, artifacts, events or organizations. Burns and Grove (2003) describe population as all the elements that meet the criteria for inclusion in a study. Burns and Grove also state that population includes all elements that meet

certain criteria for inclusion in a study. Mugenda and Mugenda (1999) defines population as the entire group of individuals, events or objects having a common observable characteristic. In other words, population is the aggregate of all that conforms to a given specification. All items in the field of enquiry constitute a ‘Universe’ or ‘Population’ (Kothari, 2004). The population for this study was the 175 local authorities in Kenya. The list of the 175 local authorities was sourced from the ministry of local government website [www.statehousekenya.go.ke/government/local.htm](http://www.statehousekenya.go.ke/government/local.htm) as at 31st December 2011.

In order to achieve homogeneity on performance, the study stratified local authorities into strata based on performance evaluation as at 30<sup>th</sup> June 2011 rankings as follows:-

**Table 3.1: Sampling Target Population**

<b>Stratum</b>	<b>No. of Local Authorities</b>
Excellent	0
Very good	21
Good	128
Fair	5
Poor	21
<b>Total</b>	<b>175</b>

(Source: GOK 2011)

### 3.5 Sampling Frame

A sampling frame describes the list of all population units from which the sample is selected (Cooper & Schindler, 2006). The elementary units or the group or cluster of units may form the basis of sampling process in which case they are called sampling units. A list containing all such sampling units is known as a sampling frame (



Kothari,2004). Thus sampling frame consists of a list of items from which the sample is to be drawn. In this study the sampling frame is the list of 175 local authorities as per the ministry of local government website from which the sample of responding local authorities was drawn as shown on Appendix IV.

### **3.6 Sample and Sampling Technique**

A complete enumeration of items in the population is known as a census inquiry (Kothari, 2004). It can be presumed that in such an inquiry, when all items are covered, no element of chance is left and highest accuracy is obtained but in practice this may not be true (Kothari, 2004). According to Polit and Beck (2003), a sample is a proportion of population to be researched while Kothari (2004) defines a sample as the selected respondent representing the population. Hollaway and Wheeler (2002) asserts that sample size does not influence the importance or quality of a study and note that there are no guidelines in determining sample size in qualitative research. Qualitative researchers do not normally know the number of people in the research beforehand; the sample may often change in size and type during the research.

Since the number of Local Authorities are scattered all over the country, this presented the study with a logistical problem. To select the sample of 18 Local Authorities as the units of analysis, stratified random sampling was used. Specifically, the study used lottery method recommended by Kothari (2004) to pick ten percent of Local Authorities in every category as shown on Table 3.2. Wesonga Kombo, Murumba, Makworo,(2011) also used 10% as an appropriate sample size in their study on factors contributing to labour turnover in the sugar industry in Kenya

(a case of Sony Sugar Company limited).

**Table 3.2 : Sampling Table (Units of Analysis)**

<b>Stratum</b>	<b>Population (N)</b>	<b>Sample (n)</b>	<b>Sample Percentage</b>
Very Good	21	2	10%
Good	128	13	10%
Fair	5	1	10%
Poor	21	2	10%
<b>Total</b>	<b>175</b>	<b>18</b>	<b>10%</b>

Source (GOK 2011)

From the 18 local authorities selected the employees were further sampled to select individual respondents from each category. At the time of the study the establishment of the local authorities in Kenya had 41,867 employees which according to Mugenda and Mugenda (2003) is a large population since it has more than 10,000 units. The sample estimate was calculated using the formula below recommended by Mugenda and Mugenda (2003). The formula yielded a sample of 328 respondents who were proportionately distributed in the 18 local authorities. The respondents were randomly sampled across all the departments as per each local authority.

To arrive at the sample size, the following formula was used.

$$n = \frac{Z^2 pq}{d^2}$$

where

n = the desired sample size (if larger population is greater than 10,000)

Z = the standard normal deviate at the required confidence level

p = the proportion in the target population estimated to have characteristics being measured

$$q = 1 - p$$

d = the level of statistical significance

Since the total population of the local authorities in Kenya is more than 10,000, the

$$\text{sample will be } \frac{(1.96)^2 \cdot (.50) (.50)}{(.05)^2} = 384$$

Since the target population is less than 10,000 the sample size will be reduced using the sample estimate formula as below:

$$nf = \frac{n}{(1 + n)/N}$$

Where nf = the desired sample size (where the population is less than 10,000)

n = the desired sample (where population is more than 10,000)

N = the estimate of population size

The sample population is 2,275 employees of the 18 local authorities sampled.

The sample size will now be:

$$\begin{aligned} nf &= \frac{384}{1 + 384/2275} \\ &= 328 \end{aligned}$$

In this study stratified sampling was used whereby local authorities were stratified into five strata based on performance as per the public sector performance contracting ranking for year 2009/2010. Under stratified sampling, the population is divided into several sub-populations that are individually more homogeneous than the total population and then we select items from the total population (Kothari,

2004). According to Kothari (2004), if a population from which a sample is to be drawn does not constitute homogeneous groups stratified sampling technique is generally applied in order to obtain a representative sample. According to Gupta and Gupta (2009), stratified sampling is regarded as the most efficient system of sampling as there is little possibility of any essential group of population being completely excluded.

Other studies that successfully used stratified sampling include Wesonga, Kombo, Murumba and Makworo (2011) in their study on factors contributing to labour turnover in the sugar industry in Kenya (a case of Sony Sugar Company Limited. Rugar, Ayodo and Agak (2010) used stratified sampling in their study on Rate of financial return to university schooling among lecturers in two public universities in Kenya. The study selected the Local Authorities using simple random sampling in each stratum as recommended by Kothari (2004). Studies that have used simple random sampling include Orodho (2003) who researched on the essentials of education and social science research methods in Kenya. Opiyo (2006) used simple random sampling in a study on civil service reform policy in Kenya.

**Table 3.3: Sample Size**

<b>Local Authority</b>	<b>Population (N)</b>	<b>Sample (n)</b>	<b>Percent</b>
County Council of Thika	140	20	14.3
Town Council of Kilifi	72	10	14
Municipal Council of Murang'a	88	13	14.7
County Council of Kitui	94	14	14.9
Town Council of Kikuyu	82	12	14.6
County Council of Tharaka	33	5	15
County Council of Murang'a	210	30	14.3
Municipal Council of Ruiru	120	17	14.2
Municipal Council of Kiambu	79	11	13.9
Town Council of Malaba	93	13	13.9
County Council of Bungoma	148	21	14.2
Town Council of Mwingi	44	6	13.6
County Council of Kwale	167	25	14.9
County Council of Mt. Elgon	36	5	13.8
Municipal Council of Thika	478	69	14.4
Municipal Council of Kitale	289	42	14.5
County Council of Teso	34	5	14.7
<b>Total</b>	<b>2275</b>	<b>328</b>	<b>14.4</b>

### **3.7 Instrument**

Information towards the variables in the conceptual framework was collected through various instruments. The variables are; Leadership, Human Resource Management, Information Technology, Financial Management and Governance. The choice of data collection instrument is often very crucial to the success of a research and thus when determining an appropriate data collection method, one has to take into account the complexity of the topic, response rate, time and the targeted population. According to Parahoo (1997), a research instrument is a tool used to collect data. An instrument is thus defined as a tool designed to measure knowledge, attitude and skills.

Data was collected through use of questionnaires. Thorndike & Hagen (1977), Kothari (2004) defines a questionnaire as a document that consists of a number of questions printed or typed in a definite order on a form or set of forms. According to Dawson (2002), there are three basic types of questionnaires; close ended, open-ended or a combination of both. Close-ended questionnaires are used to generate statistics in quantitative research while open-ended questionnaires are used in qualitative research, although some researchers quantified the answers during the analysis stage. Obtaining data from participants with different methods and experience helped prevent information bias and thus increasing credibility regarding the information collection. For purposes of this study closed-ended questionnaires using 5 point Likert scale was used through distribution on a drop and pick method. According to Kothari (2004), a Likert scale is a scale commonly involved in research that employs questionnaires. It is the most widely used approach to scaling responses

in survey researcher. Likert scales are good because they show the strength of the persons feelings to whatever is in the questions, they are easy to analyze, they are easy to collect data, they are more expansive and they are quick (Kothari, 2004). The key areas of the questionnaire were performance contracting, leadership, financial management practices, human resource management practices, governance and information technology.

### **3.8 Data Collection Procedures**

Burns and Grove (2003) define data collection as the precise, systematic gathering of information relevant to the research sub-problems, using methods such as interviews, participant observations, focus group discussion, narratives and case histories. Primary data described by Louis, Lawrence & Morrison (2007) as those items that are original to the problem under study while secondary is defined as data collected using information from studies that other researchers have made of a subject.

For purposes of this study, primary data was collected through use of questionnaires. The questionnaires were sent to the respondents under a questionnaire-forwarding letter accompanied by an introductory from the university. The researcher made a follow up and the fully completed questionnaires were picked from the respondents later.

### **3.9 Pilot Test**

Various authors have described pilot study as an exercise that ensures that errors are restricted at a very little cost. Kothari (2004) describes a pilot survey as a replica and a rehearsal of the main survey. Newing (2011) states that the importance of field

pilot cannot be over emphasized; you will always find that there are questions that people fail to understand or interpret in different ways, places in the questionnaire where they are not sure where to go next, and questions that turn out simply not to elicit useful information. According to Beck (2003), a pilot study is a small scale version, or trial run, done in preparation for a major study. According to Saunders, Thornhill & Lewis (2009), pilot testing refines the questionnaire so that respondents will have no problems in answering the question. For high precision pilot studies, 1% to 10% of the sample should constitute the pilot test size (Lancaster, Dodd, Williamson, 2010).

For purposes of this study, the pilot test was conducted using 10% of the sample size. The questionnaires were administered to 35 individuals in 5 local authorities which were not part of the sampled ones. The individuals were selected using random sampling across all departments and all levels of staff. The subjects participating in the pilot study were not included in the final study to avoid survey fatigue.

### **3.9.1 Reliability Test**

Reliability is the consistency of a set of measurement items while validity indicates that the instrument is testing what it should (Cronbach, 1951). Reliability is the consistency of your measurement, or the degree to which an instrument measures the same way each time it is used under the same condition with the same subjects. In short, it is the repeatability of your measurement. A measure is considered reliable if a person's score on the same test given twice is similar. It is important to remember that reliability is not measured, but estimated.



Reliability does not however imply validity because while a scale may be measuring something consistently, it may not necessarily be what it is supposed to be measuring. The researcher used the most common internal consistency measure known as Cronbach's Alpha ( $\alpha$ ). It indicates the extent to which a set of test items can be treated as measuring a single latent variable (Cronbach, 1951). Nunnally (1978) offered a rule of thumb of 0.7 which has been adopted as the threshold to test the reliability of data. This research used Cronbach alpha to test the reliability of all the variables.

As shown in Table 3.4 Cronbach alpha values for all the variables; performance contracting, financial management, information technology and governance practices were greater than 0.7. Leadership style and human resource were also at the threshold level of 0.7 when rounded up. From these findings it can be concluded that the constructs measures had the adequate reliability for the subsequent stages of analysis since all the Cronbach Alpha values were at 0.7 or greater and hence meeting the threshold.

**Table 3.4: Cronbach Alpha for Reliability Assessments**

<b>Variables</b>	<b>Number of items</b>	<b>Number of items deleted</b>	<b>Cronbach Alpha Values</b>
Performance Contracting	17	5	0.810
Leadership Styles	10	1	0.693
Financial Management	13	4	0.814
Information and Technology	8	3	0.800
Human Resource Management	10	4	0.661
Governance Practices	11	2	0.750

### **3.9.2 Validity Test**

According to Mugenda and Mugenda (1999), validity is the accuracy and meaningfulness of inferences, which are based on the research results. In other words validity is the degree to which results obtained from the analysis of the data actually represent the phenomenon under study. Validity exists if the data measure what they are supposed to measure. In other words the reason all people don't have the same test score is that they differ in terms of the attribute the test measures (Baumgartner et al, 2002). For this study, questionnaires were pre-tested to ensure they are not faulty and that the participants understood them.

### **3.10 Data Analysis**

Data Analysis is the processing of data to make meaningful information (Sounders, Lewis and Thornhill, 2009). Burns and Grove (2003) define data analysis as a mechanism for reducing and organizing data to produce findings that require interpretation by the researcher. According to Hyndman (2008) data processing involves translating the answers on a questionnaire into a form that can be manipulated to produce statistics. This involves coding, editing, data entry, and monitoring the whole data processing procedure.

After data was collected through questionnaires and interviews, it was prepared in readiness for analysis by editing, handling blank responses, coding, categorizing and keyed in and using Statistical Package for Social Sciences (SPSS) version 17.0 computer software for analysis.

The study conducted confirmatory factor analysis (CFA) to select factors with highest correlations with the principal component factors in an effort to test construct validity in the final data set (final survey data). Unlike exploratory factor analysis (EFA), the CFA makes use of the strong empirical or conceptual foundation in the literature review to guide the specification and evaluation of the factor model, and enable identification of factors that favorably loads all correlated with others factors measuring independent variables. Items with low communality and factor loadings were eliminated from the data set. The threshold for communality and factor loading was set at 0.4. Items with communality and a factor loading of less than 0.4 were dropped from the data set.

Descriptive and inferential statistics was used to analyze and interpret the data used in this research. Specifically, descriptive statistics related to means and frequencies. Inferential statistics included regression and correlation analysis. According to Gupta & Gupta (2009) correlation is a statistical tool with the help of which relationships between two or more variables is determined. Correlation analysis helps in determining the degree of relationship between two or more variables. A correlation coefficient ( $r$ ) has two characteristics, direction and strength. Direction of relationship is indicated by how  $r$  is to 1, the maximum value possible.  $r$  is interpreted as follows;

When  $r = +1$  it means there is perfect positive correlation between the variables

$r = -1$  it means there is perfect negative correlation between the variables

$r = 0$  it means there is no correlation between the variables, that is the variables are uncorrelated.

Regression is the statistical tool with the help of which we are in a position to estimate (or predict) the unknown values of one variable from known values of another variable (Gupta & Gupta, 2009). The definition is in tandem with that of Kothari,(2004) who defines regression as the determination of a statistical relationship between two or more variables where one variable (defined as independent variable) is the cause of behavior of another one (defined as dependent variable).

To test and analyze the quantitative data, a multiple regression model was used as laid below where the independent variables were regressed against the dependent variable to obtain inferential results. The use of multiple regression model is preferred due to its ability to show whether there is a positive or a negative relationship between independent and dependent variables. In addition, multiple regression is useful in showing linear elasticity/sensitivity between independent and dependent variables (Cohen, West & Aiken, (2003). For instance, the current study wanted to find out whether the effectiveness of performance contracting will change when responses in leadership, financial management practices, human resource management practices, governance practices, and information technology change . . . Furthermore, multiple regression was useful in showing whether the identified linear relationship was significant or not. A regression coefficient with a p value of less than 0.05 indicated that the variables (leadership, financial management, human resource management, governance and information technology) significantly

influence the effectiveness of performance contracting. Therefore, the study used the following model to test whether the effectiveness of performance contracting is a function of the independent variables.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$$

Where

Y = Effectiveness of performance contracting (dependent variable)

$\beta_0$  = Intercept

$\beta_1 - \beta_4$  are Coefficients of the independent variables

$X_1$  = Leadership,

$X_2$  = Financial Management Practices

$X_3$  = Information Technology

$X_4$  = Human Resource Management Practices

$X_5$  = Governance Practices

$\varepsilon$  : Error term, which is assumed to be normally distributed with mean zero and constant variance.

Aduda (2011) has used analysis of data using regression model previously in a study which investigated the relationship between executive compensation and firm performance in the Kenyan banking sector. Also Ngugi (2001) used a regression analysis in a study on the empirical analysis of interest rates spread in Kenya while Khawaja and Mulesh (2007) used regression analysis to identify the determinants of interest rates spread in Pakistan.

Using SPSS, the regression model was tested on how well it fits the data. The significance of each independent variable was also tested, t- test called was applied. F-test was used to test the significance of the overall model at a 95 percent confidence level. The p-value for the F-statistic was applied in determining the robustness of the model. The conclusion was based on the basis of p value where if the null hypothesis of the beta was rejected then the overall model was significant and if null hypothesis was accepted the overall model was insignificant. In other words if the p-value was less than 0.05 then it was concluded that the model was significant and has good predictors of the dependent variable and that the results are not based on chance. If the p-value was greater than 0.05 then the model was not significant and cannot be used to explain the variations in the dependent variable.

## **CHAPTER FOUR**

### **DATA ANALYSIS AND DISCUSSION**

#### **4.1 Introduction**

The study aimed at investigating the determinants of the effectiveness of performance contracting in local authorities in Kenya. The specific objectives were the following, to investigate the effect of leadership style in performance contracting, to establish whether financial management has an influence in performance contracting, to determine the effect of information technology in performance contracting, to investigate whether human resource management has an influence in performance contracting and to determine the role of governance in performance contracting.

This chapter deals with the analysis of data. The data analysis is in harmony with the specific objectives where patterns were investigated, interpreted and inferences drawn on them.

#### **4.2 Response Rate**

The number of questionnaires that were administered to all the respondents was 328 questionnaires as per Table 3.3. A total of 200 questionnaires were properly filled and returned from the local authority employees. This represented an overall successful response rate of 69%. According to Mugenda and Mugenda (2003), a response rate of 50% or more is adequate. Babbie (2004) also asserted that return rates of 50% are acceptable to analyze and publish, 60% is good and 70% is very good. Based on the above, the response rate for this study was found to be adequate

**Table 4. 1: Response Rate**

<b>Response</b>	<b>Total</b>	<b>Percent</b>
Returned	200	69%
Unreturned	128	31%
Total	328	100%

### **4.3 Performance Contracting**

#### **4.3.1 Performance Contracting Component Matrix**

In order to reduce the data to a meaningful and manageable set of factors, factor analysis was conducted. Factor analysis reduces the data to a manageable set of factors (Sekaran, 2006). Table 4.2 shows the component matrix of performance contracting which indicates that all the statement with a coefficient of 0.4 were retained and those with less than were dropped during regression analysis. This is in line with Sekaran (2006) who averred that statements with a coefficient of less than 0.4 should not be analyzed further. Out of 17 items 10 were retained for further analyses since they were the only items that made the threshold of 0.4 and 5 were dropped.

**Table 4.2: Performance Contracting Component Matrix**

<b>Statement</b>	<b>Retained</b>	<b>Dropped</b>
The council complies 100 with the budget	0.708	
The council undertakes periodical monitoring and Evaluation to ensure compliance with the budget	0.669	
The council implements the service delivery charter 100	0.663	
The council circulates the baseline survey results to the employees	0.612	
I have assigned a performance contract	0.594	



The council fully implements baseline survey recommendations	0.584	
The council achieves the set revenue collection targets	0.577	
The council undertakes periodical monitoring and evaluation to ensure compliance with service delivery charter	0.567	
The council achieves its development index targets every year	0.54	
The council is ISO certified	0.47	
The council funds are utilized on programmed activities		0.383
The council complies 100 with the strategic plan		0.351
The council provides adequate working tools and protective clothing to the employees.		0.207
I find my work challenging and interesting		0.19
The council has a service delivery charter		0.174
I am aware that the council has a performance contract		0.122
The council has a strategic plan		0.083

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#### **4.3.2 Descriptive Analysis- performance Contracting**

The section addresses the various measurements of effectiveness of performance contracting in local authorities in Kenya. Table 4.3 shows that 80% disagreed that they have signed a performance contract and 82 % disagreed that the council complied 100% with the budget. In addition, 7% agreed that the council funds are utilized on programmed activities, 78% disagreed that the council undertakes periodical monitoring and evaluation to ensure compliance with the budget and 55% disagreed that the council achieves the set revenue collection targets. Eighty percent of the respondents disagreed that the council achieves its development index targets every year.

Furthermore, 88% disagreed that the council undertakes periodical monitoring and evaluation to ensure compliance with service delivery charter. Eighty eight percent disagreed that the council circulates the baseline survey results to the employees, 70% disagreed that the council fully implements baseline survey recommendations and 94% disagreed that the council was ISO certified. The score of the responses for this section disagrees at 74% indicating that more employees disagreed with the statements concerning performance contracting in the local authorities in Kenya.

The findings concur with those in Grapinet (1999) who conducted a study on public sector performance contracting in France. The authors noted that performance contracts, which were introduced in 1992 and became operational in 1999, had brought in positive breakthroughs in participatory management for those departments responsible for service delivery. This study shows that despite the benefits of performance contracting cited by Grapinet, only a fair employees signs the performance contracting and hence participatory management is not enhance in the local authorities. However, the study also noted that staffs are not sufficiently involved in drawing up contracts, a task which, in spite of exhortations from central government, is still largely the preserve of managers. The study called for a change in staff attitude and motivation especially the ones whom show little inclination to take part in setting their own performance goal.

The findings imply that there were no strong systems that guided performance contracting in the local authorities in Kenya. This was evidenced by the disagreements from the respondents that the council was ISO certified, they have signed a performance contract, the council complied 100% with the budget and the

council funds were utilized on programmed activities. This implies that there were very poor measures of performance contracting at local authorities in Kenya. It also implies that the benefits of performance contracting may not be achieved unless sound measures are put in place and all employees signs the performance contracts.

**Table 4.3: Performance Contracting**

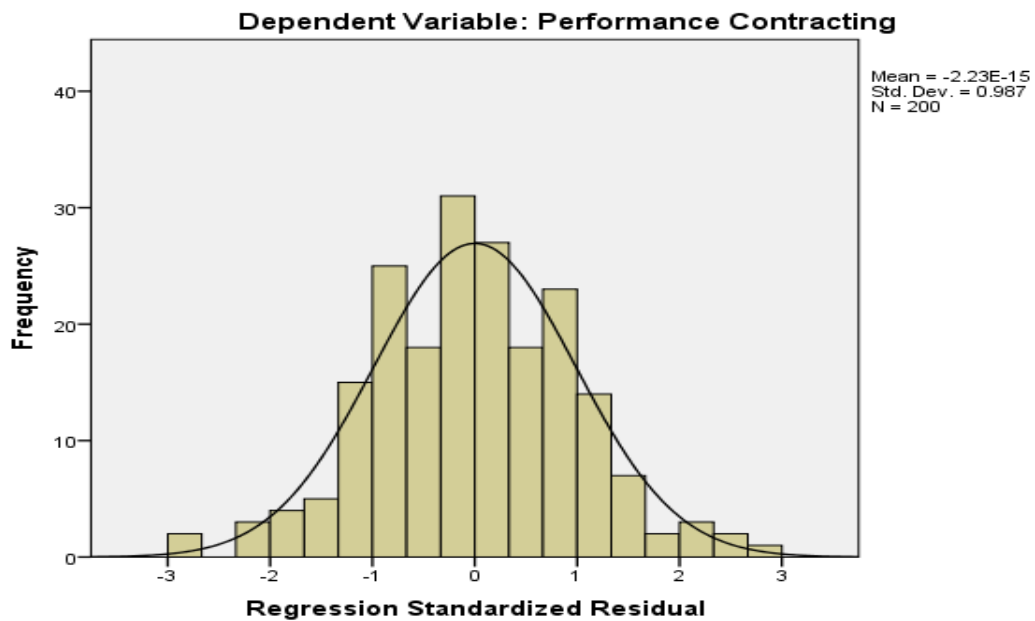
<b>Statement</b>	<b>Strongly disagree %</b>	<b>Disagree %</b>	<b>Neutral %</b>	<b>Agree %</b>	<b>Strongly Agree %</b>
I have assigned a performance contract	41	39	0	13	6
The council complies 100 with the budget	29	53	2	12	4
The council undertakes periodical monitoring and evaluation to ensure compliance with the budget	25	53	6	14	2
The council achieves the set revenue collection targets	18	37	5	32	8
The council achieves its development index targets every year	29	51	5	12	3
The council implements the service delivery charter 100	25	52	4	16	3
The council undertakes periodical monitoring and evaluation to ensure compliance with service delivery charter	18	71	4	5	3
The council circulates the baseline survey results to the employees	37	51	4	7	2
The council fully implements	41	29	6	21	3

<b>Statement</b>	<b>Strongly disagree %</b>	<b>Disagree %</b>	<b>Neutral %</b>	<b>Agree %</b>	<b>Strongly Agree %</b>
baseline survey recommendations					
The council is ISO certified	85	9	2	4	1
<b>Mean</b>	<b>33</b>	<b>41</b>	<b>4</b>	<b>17</b>	<b>5</b>

### **4.3.3 Normality Test for the Dependent Variable**

Inferential statistics are meant to infer whether there is underlying relationship within the respective variables for purposes of subsequent analysis. The dependent variable was subjected to normality to check whether the data provided was normally distributed or not. The best to evaluate how far data is normal is to look at the histogram and see if the distribution deviates grossly from the normal bell-shaped distribution (Garson, 2012). The histogram indicates that there is no gross deviation from the normal bell shaped and hence conclude that the data is normally distributed.

### **Histogram for effectiveness of Performance contracting**



**Figure 4.1: Normal Histogram for Effectiveness of Performance Contracting**

#### **4.4 Leadership Style and Effectiveness of Performance Contracting**

##### **4.4.1 Leadership Style Factor Analysis**

To reduce the number of variables to a meaningful interpretable and manageable set of factors, factor analysis was done. Out of the 10 statements only one statement was dropped and 9 were retained as they met the acceptable threshold 0.4 as per Sekaran (2012). Results on Table 4.4 indicates that leadership style statements retained 8 statements and dropped two after the factor analysis was done.

**Table 4.4: Leadership Style Component Matrix**

<b>Statement</b>	<b>Retained</b>	<b>Dropped</b>
Employees' views are taken into consideration in the management	0.764	
Leadership qualities are visible in management	0.717	
Leadership style of senior management is participatory	0.663	

<b>Statement</b>	<b>Retained</b>	<b>Dropped</b>
Employees are fairly empowered to be creative and innovative in their jobs	0.572	
Proper delegation is done to enhance service delivery	0.531	
There is good guidance to the staff in executing their duties by supervisors	0.517	
Leaders make clear guidelines to ensure effective performance	0.461	
Leaders motivate employees by rewarding good performance	0.443	
Leaders set sound performance standards		0.363
There is proper co-ordination between the departments		0.092

#### **4.4.2 Descriptive Analysis- Leadership Styles**

The first objective of the study was to investigate whether leadership style influences performance contracting in local authorities in Kenya. Results on Table 4.5 indicate that 80% of the respondents agreed that leadership style of senior management was participatory, 78% agreed that leadership qualities are visible in management and 56% disagreed that employees' views are taken into consideration in the management. Fifty-eight percent agreed that, proper delegation was done to enhance service delivery and 67% disagreed that employees are fairly empowered to be creative and innovative in their jobs. In addition, 56% of the respondents agreed that there was good guidance to the staff in executing their duties by supervisors, 53% agreed that leaders made clear guidelines to ensure effective performance and 92% disagreed that leaders motivated employees by rewarding good performance. The

scores of responses for this section agrees at 49% indicating that more employees agreed that leadership styles were a key driver of performance contracting.

The findings are consistent with those in Ohemeng (2009) who conducted a study on the Constraints in the Implementation of Performance Management Systems in Developing Countries and noted that Social cultural norms influence public management practices and organizational decision making. In addition, the role of political authorities, as well as of administrative leadership, is also vital to the success of performance management. The author reckons that such leaders should be seen at the forefront of any reforms. The shortage of experienced staff, inadequate remuneration, the poor morale of the public service, and unwieldy administrative systems has weakened the capacity of institutions to carry out any meaningful reform agenda. Leadership thus becomes an essential instrument to reverse such a trend and inspire enthusiastic concern for the reforms.

The findings are also in line with those in Avolio and Gardner (2005) who asserts that leadership involves a higher order of exchange beyond rewards. It also concurs with those in Cooper, Scadura and Schrieshen (2005) who asserts that leadership has a stronger positive influence with subordinate performance.

The findings imply that there were good leadership styles at local authority because there was proper delegation to enhance service delivery, there was proper coordination between the departments, there was good guidance to the staff in executing their duties by supervisors and leaders made clear guidelines to ensure effective performance.

**Table 4.5: Leadership Styles**

<b>Statement</b>	<b>Strongly Disagree %</b>	<b>Disagree %</b>	<b>Neutral %</b>	<b>Agree %</b>	<b>Strongly Agree %</b>
Leadership style of senior management is participatory	2	12	6	48	33
Leadership qualities are visible in management	2	16	5	52	26
Employees' views are taken into consideration in the management	17	39	2	28	15
Proper delegation is done to enhance service delivery	3	36	3	50	9
Employees are fairly empowered to be creative and innovative in their jobs	23	44	4	25	5
There is good guidance to the staff in executing their duties by supervisors	6	32	7	48	8
Leaders make clear guidelines to ensure effective performance	4	39	4	45	9
Leaders motivate employees by rewarding good performance	66	25	2	6	2
<b>Mean</b>	<b>14</b>	<b>32</b>	<b>4</b>	<b>37</b>	<b>12</b>

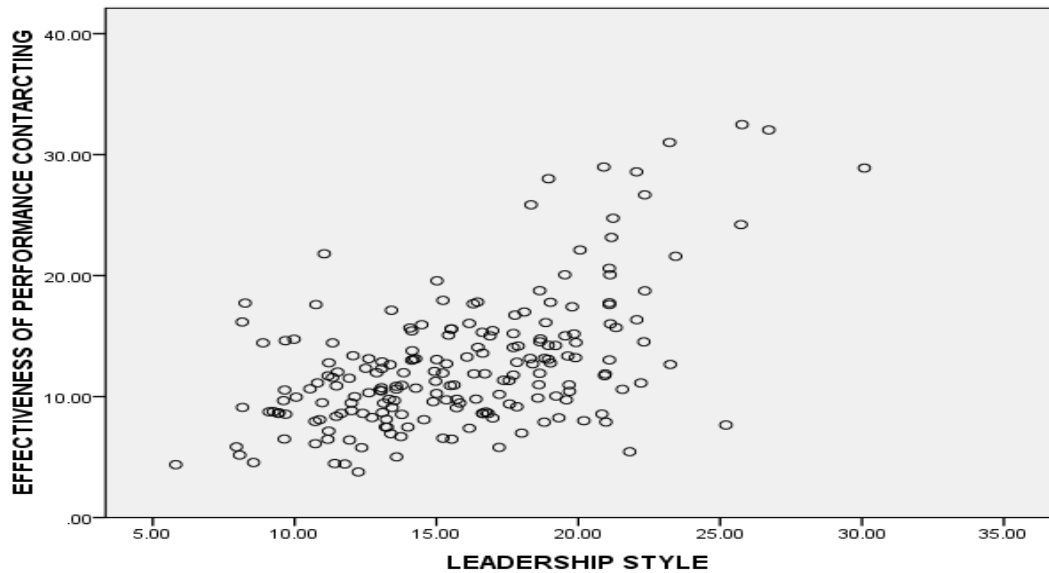
#### **4.4.3 Relationship Between Leadership Style and Effectiveness of Performance Contracting**

Figure 4.2 shows the scattered plot of leadership style and performance contracting.

The figure reveals that there was a positive relationship between the two variables.



Therefore, an increase in the effectiveness of leadership style affects performance contracting positively.



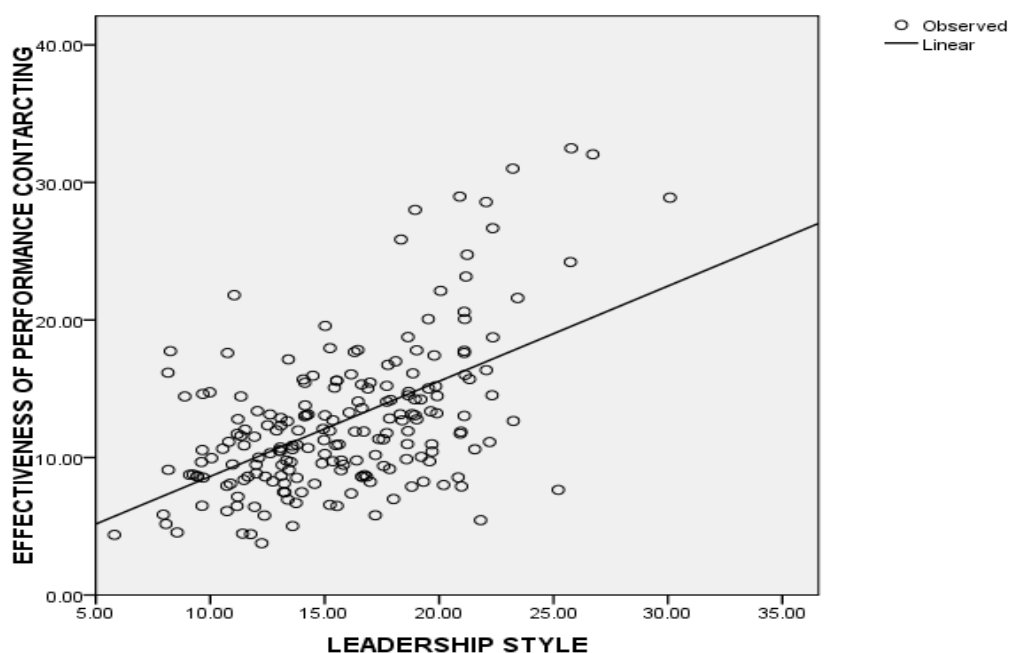
**Figure 4.2: Scatter Plot for Leadership Style**

Table 4.6 displays the results of correlation test analysis between the dependent variable (effectiveness of performance contracting) and leadership style. Results on Table 4.6 show that effectiveness of performance contracting was positively correlated with leadership styles. This reveals that any positive change in leadership style led to increased effectiveness of performance contracting. Conversely decreased leadership style will lead to ineffectiveness of performance contracting. The relationship has been illustrated by the correlation co-efficient of 0.544 at 0.000 significant level, implying a positive relationship between leadership style and effectiveness of performance contracting in local authorities in Kenya.

**Table 4.6: Correlation Analysis Results on the Relationship Between Leadership Style and Effectiveness of Performance Contracting**

Variable		Effectiveness Of Performance Contracting	Leadership Style
Effectiveness Of Performance Contracting	Pearson Correlation	1	0.544
	Sig. (2-Tailed)		0.000
Leadership Style	Pearson Correlation	0.544	1
	Sig. (2-Tailed)	0.000	

Figure 4.3 is a diagrammatic representation of the relationship between leadership style and performance contracting. The figure indicates that a positive relationship exists. Therefore, an increase in the effectiveness of leadership style positively affects effectiveness of performance contracting. This is in tandem with the evaluation of performance contracting report (GOK, 2011) which asserted that performance contracting as an improvement strategy can only be successful through political goodwill and focused leadership.



**Figure 4.3: Linear Relationship - Leadership Style and Performance Contracting**

Regression analysis was conducted to empirically determine whether leadership style was a significant determinant of performance contracting. Regression results in Table 4.7 indicate the goodness of fit for the regression between leadership style and performance contracting was satisfactory. An R squared of 0.296 indicates that 29.6 % of the variances in the effectiveness of performance contracting in the local authorities are explained by the variances in the leadership style. The correlation coefficient of 0.544 indicates that the combined effect of leadership styles have a positive correlation with effectiveness of performance contracting.

**Table 4.7: Model Summary for Leadership Style**

<b>Indicator</b>	<b>Coefficient</b>
R	0.544
R Square	0.296
Std. Error of the Estimate	4.55845
Predicator : Leadership Style	

The model significance was presented in Table 4.8. An F statistic of 83.212 indicated that the overall model was significant as it was larger than the critical F value of 3.88 with (1, 198) degrees of freedom at the P=0.05 level of significance. This was supported by a probability value of (0.000). The reported probability of (0.000) is less than the conventional threshold probability of  $p \leq 0.05$ . The p- value is smaller than the alpha level of  $p \leq 0.05$  and therefore it is possible to conclude that the leadership style reliably predict the effectiveness of performance contracting.

The study, therefore, fails to accept the null hypothesis,  $H_{01}$  at 95% confidence interval and concludes that there is a significant relationship between the leadership style and performance contracting in local authorities.

**Table 4. 8: ANOVA for Leadership Style**

<b>Indicator</b>	<b>Sum of Squares</b>	<b>Df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
Regression	1729.108	1	1729.108	83.212	0.000
Residual	4114.332	198	20.779		
Total	5843.44	199			

Table 4.9 displays the regression coefficients of the independent variable (leadership style). The results reveal that leadership style is statistically significant in explaining effectiveness of performance contracting of local authorities in Kenya. This is supported by  $\beta=0.692$ ,  $p$  value= 0.000. The findings imply that one positive unit change in leadership style led to a change in performance contracting effectiveness at the rate of 0.0.692. This confirms the positive effect of leadership style on effectiveness of performance contracting in local authorities in Kenya.

**Table 4.9: Regression Coefficient for Leadership Style**

<b>Variable</b>	<b>Beta</b>	<b>Std. Error</b>	<b>t</b>	<b>Sig.</b>
Constant	1.703	1.24	1.373	0.171
Leadership style	0.692	0.076	9.122	0.000

## 4.5 Financial Management Practices and Effectiveness of Performance

### Contracting

#### 4.5.1 Financial Management Practices Factor Analysis

To reduce the number of variables to a meaningful interpretable and manageable set of factors, factor analysis was done. Out of the 13 statements 4 statements were dropped and 9 were retained as they met the acceptable threshold 0.4 as per Sekaran (2007). Table 4.10 indicates that eight statements had a coefficient of more than 0.4 hence were retained and only four statements were dropped from the analysis since they had a coefficient of less than 0.4.

**Table 4.10: Financial Management Practices Component Matrix**

<b>Statement</b>	<b>Retained</b>	<b>Dropped</b>
Revenue collection and usage is free from political interference	0.736	
The council has favorably reduced outstanding figures of rent and rate	0.727	
The council collects adequate revenue to sustain itself	0.686	
All debtors are followed in time	0.652	
Internal audit free from any interference	0.643	
Budget variances are investigated and rectified	0.573	
The recommendations from both internal and external auditors are rectified immediately	0.524	
Revenue potential assessment studies are regularly done	0.453	
Latest accounting information systems are used are used for generating reports for stakeholders		0.391
There is an elaborate and effective internal control framework for detection and prevention of frauds		0.312
Internal audit department exists		0.176
Financial procedures and reporting system are in place		0.094

#### **4.5.2 Descriptive Analysis- Financial Management Practices**

The second objective was to establish whether Financial Management had an influence on effectiveness of performance contracting in local authorities in Kenya. Table 4.11 shows that 71% agreed that the council had internal capacity to prepare all financial reports and accounts. Seventy nine percent of the respondents disagreed that budget variances are investigated and rectified, 90% disagreed that revenue collection and usage is free from political interference, 89% disagreed that all debtors are followed in time and 92% disagreed that the council has favourably reduced outstanding figures of rent and rates. Furthermore, 67% disagreed that revenue potential assessment studies are regularly done and 64% disagreed that the recommendations from both internal and external auditors are addressed immediately.

Finally, 77% of the respondents disagreed that internal Audit is free from any interference and 80% disagreed that the Council collects adequate revenue to sustain itself. For this section, 67% disagreed with the statements on financial management practices implying that the practices in local authorities require major interventions as they negatively affect the effectiveness of performance contracting which requires adequate funding and sound controls to operationalize.

The findings concur with Pandey (2010) who avers that credit policy of the firm affects working capital by influencing the level of book debts. Slack collection procedures can reduce the chance of bad debts hence impairing operations of the organization. The findings also agree with Paramasivan and Subramanian (2010) who asserts that effective internal controls over financial reporting has become a

legal obligation and companies are required to establish and maintain a system of internal control that provides a reasonable assurance of reliability of financial reporting and preparation of financial statements in accordance with GAAP.

The findings are in tandem with those in Opiyo (2006) who researched on financial sources of finance in local authorities and observed that many of them were suffering financially and needed assistance. This resulted from unclear and conflicting objectives, poor management and lack of accountability. Though this responded to addressing financial status in local enterprises, it did show over reliance on exchequer. However, the scholar or researcher did not bring out how public enterprises can control and avoid over reliance on exchequer.

The findings also concur with those of Bouckaert, Verhoest and De Corte (1999) opinions in which they attempted to analyze the public sector performance contracting in Belgium and Flanders. The paper analyzed the effects of contract management on several organizational dimensions such as human resources management, financial management and cost consciousness, internal organizations and external relations. In the field of human resource management, the paper opined that performance contracting had improved the performance orientedness of human resources management and increased the flexibility of allocating the right person to the right job. In the area of finance management, the paper claimed that the use of performance-based contracts has induced an increased cost consciousness. In addition, the use of contracts and the accompanying increase of operational autonomy have also induced some developments in the internal structure.

The findings imply that there were poor financial management practices at local authority. This showed that the budget variances were not investigated and rectified, revenue collection and usage was not free from political interferences and all debtors were not followed in time. The findings also implied that the council had not favourably reduced outstanding figures of rent and rate and the revenue potential assessment studies were not regularly done. Without revenue potential assessment studies, it may not be possible to set realistic targets to the staff as the amounts collectable is normally determined by the collector.

**Table 4.11: Financial Management Practices Descriptive**

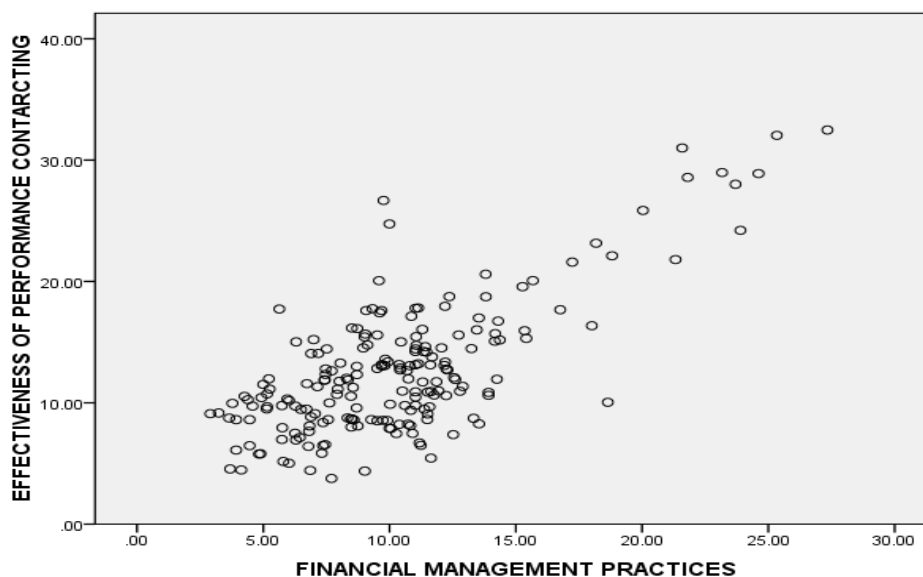
<b>Statement</b>	<b>Strongly Disagree %</b>	<b>Disagree %</b>	<b>Neutral %</b>	<b>Agree %</b>	<b>Strongly Agree %</b>
The council has internal capacity to prepare all financial reports and accounts	6	9	14	39	32
Budget variances are investigated and rectified	23	56	6	13	2
Revenue collection and usage is free from political interference	37	53	2	7	2
All debtors are followed in time	49	41	5	6	1
The council has favourably reduced outstanding figures of rent and rate	57	35	2	6	1
Revenue potential assessment studies are regularly done	28	40	20	11	2
The recommendations from	13	52	14	17	5



Statement	Strongly Disagree %	Disagree %	Neutral %	Agree %	Strongly Agree %
both internal and external auditors are rectified immediately					
Internal audit free from any interference	34	43	4	15	5
The council collects adequate revenue to sustain itself	36	44	2	13	5
<b>Mean</b>	<b>28</b>	<b>39</b>	<b>9</b>	<b>17</b>	<b>7</b>

#### 4.5.3 Relationship Between Financial Management Practices and Effectiveness Performance Contracting

Figure 4.4 shows the scatter plot of financial management practices and effectiveness performance contracting. The figure reveals that there was a positive relationship between the two variables. The figure indicates that a positive relationship exists. Therefore, an increase in the effectiveness of financial management practices affects performance contracting positively.



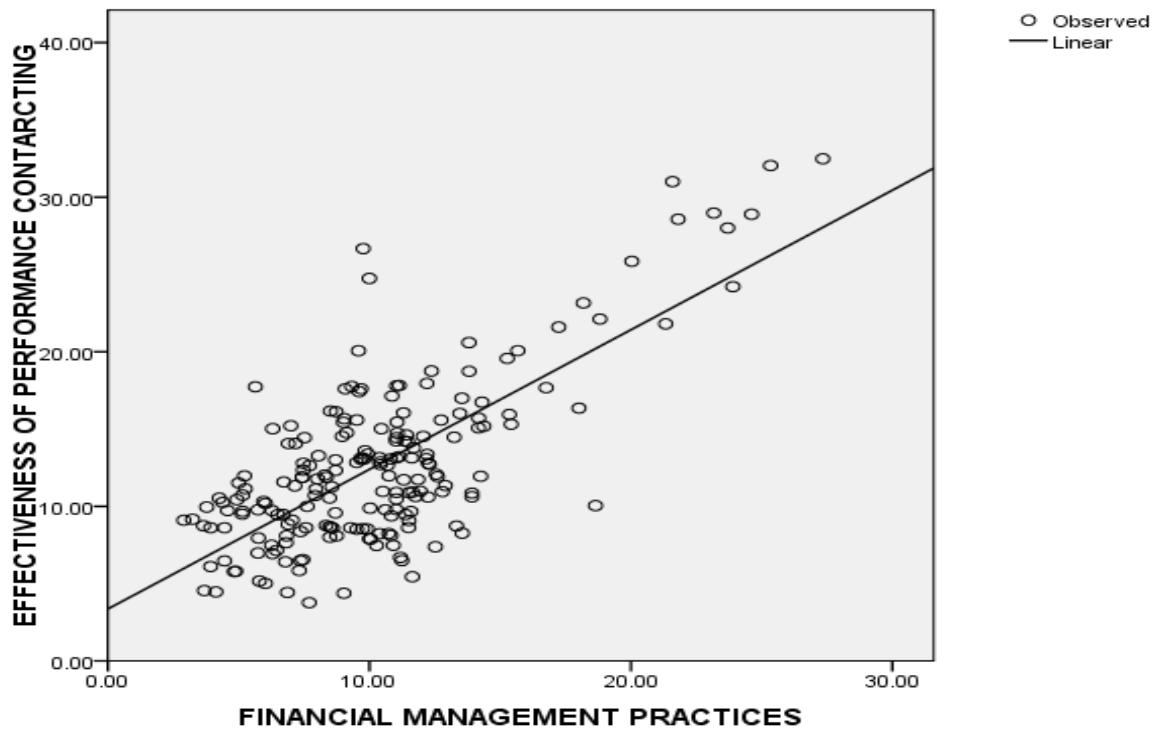
**Figure 4.4: Scatter Plot Relationship Between Financial Management practices and Effectiveness of Performance Contracting**

Table 4.12 displays the results of correlation test analysis between the dependent variable (effectiveness of performance contracting) and financial management practices. Results on Table 4.12 show that performance contracting was positively correlated with financial management practices. This reveals that any positive change in financial management practices led to increased effectiveness of performance contracting.

**Table 4.12: Relationship Between Financial Management practices and Performance Contracting**

Variable		Effectiveness of performance contacting	Financial management practices
Effectiveness of performance contacting	Pearson correlation	1	0.730
	Sig. (2-tailed)		0.000
Financial management practices	Pearson correlation	0.730	1
	Sig. (2-tailed)	0.000	

Figure 4.5 is a diagrammatic representation of the relationship between financial management practices and effectiveness of performance contracting. The figure indicates that a positive relationship exists between the two variables.



**Figure 4.5: Linear Relationship Between Financial Management Practices and Performance Contracting**

Regression analysis was conducted to empirically determine whether financial management practices was a significant determinant of performance contracting. Regression results in table 4.13 indicate the goodness of fit for the regression between financial management practices and performance contracting was satisfactory. An R squared of 0.533 indicates that 53.3% of the variances in the effectiveness of performance contracting in the local authorities are explained by the variances in the financial management practices. The correlation coefficient of 0.73 indicates that the combined effect of the predictor variables have a strong and positive correlation with effectiveness of performance contracting.

**Table 4.13: Model Summary for Financial Management Practices**

<b>Indicator</b>	<b>Coefficient</b>
R	0.73
R Square	0.533
Std. Error of the Estimate	3.71234

The model significance was presented in Table 4.14. An F statistic of 226.006 indicated that the overall model was significant as it was larger than the critical F value of 3.88 with (1, 198) degrees of freedom at the P=0.05 level of significance. This was supported by a probability value of (0.000). The reported probability of (0.000) is less than the conventional probability threshold of (0.05). The p value is smaller than the alpha value of 0.05. It is therefore possible to conclude that financial management is a reliable predictor of the effectiveness of performance contracting.

The study, therefore, fails to accept the null hypothesis,  $H_0$  at 95% confidence interval and concludes that there is a significant relationship between the financial management practices and effectiveness of performance contracting in local authorities in Kenya.

**Table 4. 14: ANOVA for Financial Management Practices**

<b>Indicator</b>	<b>Sum of Squares</b>	<b>Df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
Regression	3114.705	1	3114.705	226.006	0.000
Residual	2728.735	198	13.781		
Total	5843.44	199			

Table 4.15 displays the regression coefficients of the independent variable (financial management practices). The results reveal that financial management practices are statistically significant in explaining effectiveness of performance contracting of local authorities in Kenya. This is supported by beta = 0.903 ,p value =0.000. The results imply that a unit change in financial management practices will lead to a positive change in effectiveness of performance contracting by the rate of 0.903.

**Table 4.15: Regression Coefficient for Financial Management Practices**

<b>Variable</b>	<b>Beta</b>	<b>Std. Error</b>	<b>t</b>	<b>Sig.</b>
Constant	3.362	0.67	5.021	0.000
Financial management practices	0.903	0.06	15.034	0.000

## **4.6 Information Technology and Effectiveness of Performance Contracting**

### **4.6.1 Information Technology Factor Analysis**

To reduce the number of variables to a meaningful interpretable and manageable set of factors, factor analysis was done. Out of the 8 questions 3 were dropped and 5 were retained as they met the acceptable threshold 0.4 as per Sekaran (2007). Results on Table 4.16 for technology factor analysis indicates that only three statements were dropped from the analysis and five statements were retained since their coefficients were more than 0.4.

**Table 4.16: Information Technology Component Matrix**

<b>Statement</b>	<b>Retained</b>	<b>Dropped</b>
Information systems are used to process, disseminate and ensure feedback of information from various sources	0.763	
Trained personnel on LAIFOMS are in place to manage information systems	0.72	
The council is able to produce timely computer generated reports	0.654	
There are enough modern computers in the council	0.495	
Financial reports generated through LAIFOMS are more accurate and timely	0.485	
Local authorities integrated financial management system (LAIFOMS) exist to collect, analyze and report		0.334
Over 60 of the employees are computer literate		0.212
The council has automation policy		0.208

#### **4.6.2 Descriptive Analysis- Information Technology**

The third objective of the study was to determine the effect of information technology in effectiveness of performance in contracting local authorities in Kenya. Results in Table 4.17 indicates that 61% of the respondents 90% agreed that trained personnel on LAIFOMS are in place to manage information systems. Eighty three percent agreed that information systems are used to process, disseminate and ensure feedback of information from various sources, 94% agreed that financial reports generated through LAIFOMS are more accurate and timely and 55% agreed that there are enough modern computers in the council. Finally, 72% agreed that the council was able to produce timely computer generated reports. The scores for this section indicates that indicates that more employees agreed that information technology was a key driver of performance contracting. This is evidenced by 79% who agreed and strongly agreed on the statements.

The findings are in line with those in Lind (1996) who opined that it could be the major factor by which productivity in public administration can be increased. The findings also concur with those in Sachs (2000) who stated that government entities that do not keep up with information technology often collapse and hence unable to achieve socio-economic growth. Arising from the value of IT, Hunter (2001) admonished that local government councils, which do not move forward, risk being seen as old fashioned and unresponsive and as a result, the councils find it more difficult to make a success of new political arrangements.

The findings also concur with those in Mittullah and Waema (2007) who conducted a study on ICTs and financial management in local authorities in Kenya, case study of Mavoko and Nyeri municipal councils. The researchers asserted that most of these authorities, like others in Africa, rely on manual file based information storage with hardly any feedback and dissemination taking place. An overview of the local authorities reveals a high demand for information services which include: ICT training, internet and e-mail access, desk top publishing, word processing, printing and photocopying, but availability of these services is limited at the local authorities level. The authors argued that although ICT programmes are in an infancy stage in few local authorities in Kenya, it is assumed that an efficient use of ICT has potential of reversing the trend of ineffective governance and improving participation, transparency, accountability, responsiveness, effectiveness and efficiency.

The findings imply that the local authorities had embraced the technological changes taking place in the world. This further implies that they had integrated financial management systems, there are trained personnel to manage the information systems

and financial reports generated through LAIFOMS are more accurate and timely. However the council did not have enough computers and had no automation policy which means that the authorities were still slow in appreciating the benefit of ICT in improving service delivery. Also local authorities has not enhanced adequate training of employees to become computer literate as evidenced by 91% who disagrees with that over 60% of employees are computer literated.

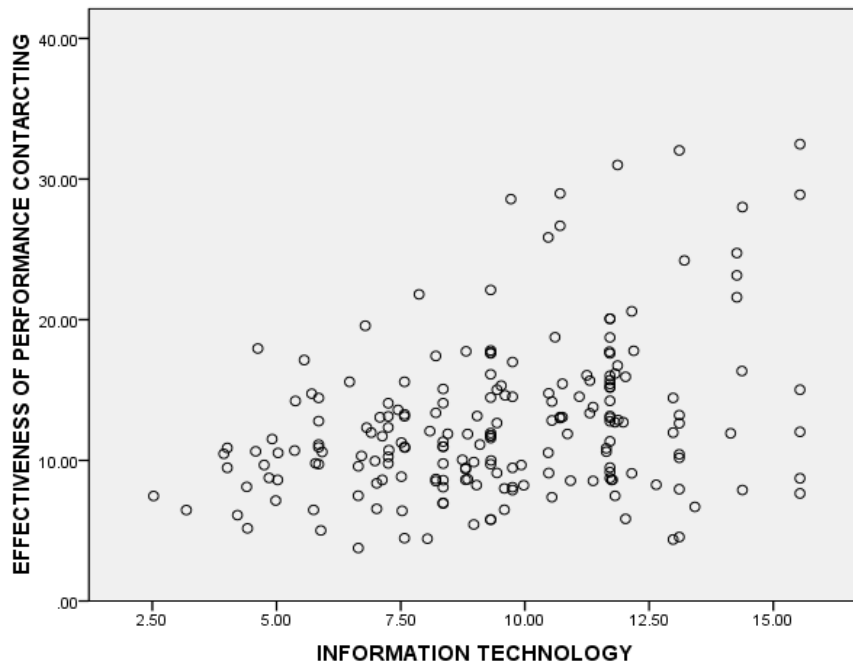
**Table 4.17: Information Technology**

<b>Statement</b>	<b>Strongly Disagree %</b>	<b>Disagree %</b>	<b>Neutral %</b>	<b>Agree %</b>	<b>Strongly Agree %</b>
Trained personnel on LAIFOMS are in place to manage information systems	3	4	3	51	39
Information systems are used to process, disseminate and ensure feedback of information from various sources	4	7	6	49	34
Financial reports generated through LAIFOMS are more accurate and timely	2	2	4	69	24
There are enough modern computers in the council	20	22	4	43	11
The council is able to produce timely computer generated reports	12	11	5	57	16
<b>Mean</b>	<b>8</b>	<b>9</b>	<b>4</b>	<b>54</b>	<b>25</b>



### 4.6.3 Relationship Between Information Technology and Effectiveness of Performance Contracting

Figure 4.6 shows the scattered plot of information technology and performance contracting. The figure reveals that there was a positive relationship between the two variables. The figure indicates that a positive relationship exists. Therefore, an increase in the effectiveness of information technology affects performance contracting positively.



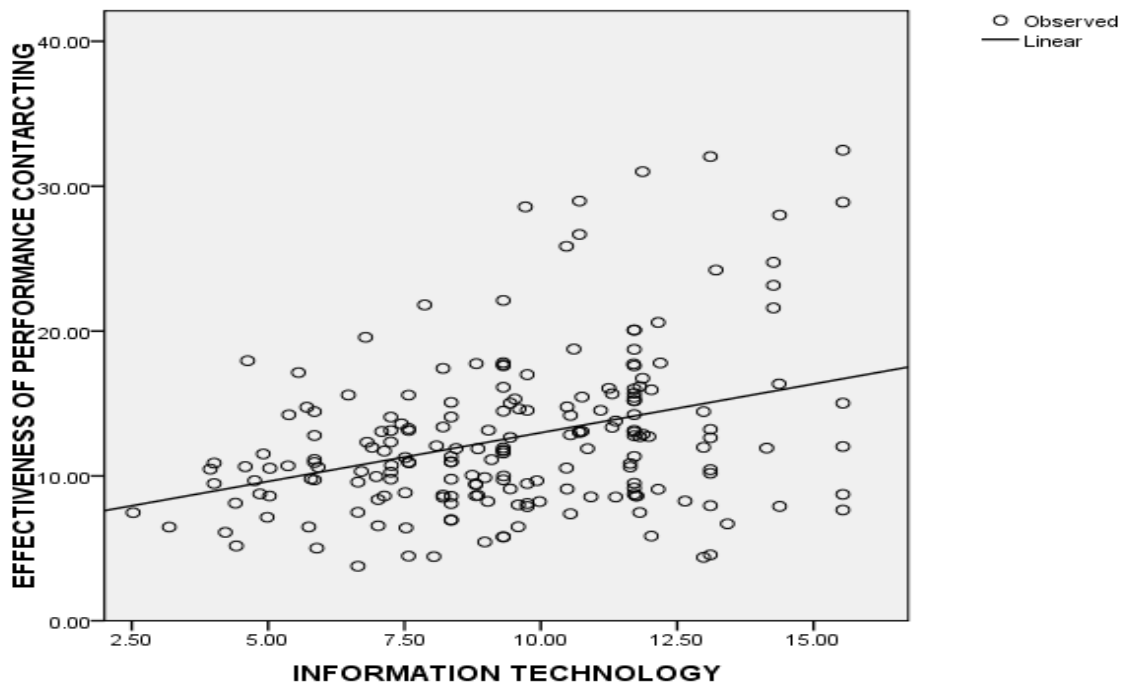
**Figure 4.6: Scatter Plot Relationship Between Information Technology and Performance Contracting**

Table 4.18 displays the results of correlation test analysis between the dependent variable (performance contracting) and information technology. Results on Table 4.19 show that performance contracting was positively correlated with information technology. This reveals that any positive change in information technology led to increased effectiveness of performance contracting.

**Table 4.18: Correlation Analyses Result on the Relationship Between Information Technology and Effectiveness of Performance Contracting**

Variable		Effectiveness of performance contracting	Information technology
Effectiveness of performance contracting	Pearson correlation	1	0.350
	Sig. (2-tailed)		0.000
Information technology	Pearson correlation	0.350	1
	Sig. (2-tailed)	0.000	

Figure 4.7 is a diagrammatic representation of the relationship between information technology and effectiveness of performance contracting. The figure indicates that a weak and positive relationship exists.



**Figure 4.7: Linear Relationship Between Information Technology and Performance Contracting**

Regression analysis was conducted to empirically determine whether information technology was a significant determinant of performance contracting. Regression results in table 4.19 indicate the goodness of fit for the regression between information technology and performance contracting was satisfactory. An R squared of 0.123 indicates that 12.3% of the variances in the effectiveness of performance contracting in the local authorities are explained by the variances in the information technology. The correlation coefficient of 0.35 indicates that the combined effect of the predictor variables have a positive correlation with effectiveness of performance contracting.

**Table 4.19: Model Summary for Information Technology**

<b>Indicator</b>	<b>Coefficient</b>
R	0.35
R Square	0.123
Std. Error of the Estimate	5.08837

The overall model significance was presented in table 4.20. An F statistic of 27.689 indicated that the overall model was significant as it was larger than the critical F value of 3.88 with (1, 198) degrees of freedom at the P=0.05 level of significance. This was supported by a probability value of (0.000). The reported probability of (0.000) is less than the conventional probability of (0.05). The probability of (0.000) indicated that there was a very low probability that the statement “overall model was insignificant” was true and it was therefore possible to conclude that the statement was untrue.

The study, therefore, fails to accept the null hypothesis,  $H_{03}$  at 95% confidence interval and concludes that there is a significant relationship between the information technology and effectiveness of performance contracting in local authorities.

**Table 4.20: ANOVA for Information Technology**

<b>Indicator</b>	<b>Sum of Squares</b>	<b>Df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
Regression	716.915	1	716.915	27.689	0.000
Residual	5126.525	198	25.892		
Total	5843.44	199			

Table 4.21 displays the regression coefficients of the independent variable (information technology). The results reveal that information technology is statistically significant in explaining effectiveness of performance contracting of local authorities in Kenya. This is supported by beta= 0.673, p value =0.000. The results imply that a unit change in information technology will lead to a positive change in effectiveness of performance contracting by the rate of 0.673

**Table 4.21: Regression Coefficient for Information Technology**

<b>Variable</b>	<b>Beta</b>	<b>Std. Error</b>	<b>t</b>	<b>Sig.</b>
Constant	6.258	1.262	4.959	0.000
Information technology	0.673	0.128	5.262	0.000

## **4.7 Human Resource Management Practices and Effectiveness of Performance Contracting**

### **4.7.1 Human Resource Practices Factor Analysis**

To reduce the number of variables to a meaningful interpretable and manageable set of factors, factor analysis was done. Out of the 10 questions 4 were dropped and 6

were retained for further analysis as they met the acceptable threshold of 0.4 as per Sekaran (2007). Results on Table 4.22 for technology factor analysis indicates that only four statements were dropped from the analysis and six statements were retained since their coefficients were more than 0.4.

**Table 4.22: Human Resource Practices Component Matrix**

<b>Statement</b>	<b>Retained</b>	<b>Dropped</b>
Employees are recruited on merit based on qualifications and work experience	0.814	
Vacant positions are advertized for competitive selection of qualified candidates	0.765	
There is an elaborate human resource policy	0.528	
Training and development is based on capacity , needs and capacity objectives	0.526	
Upgrading/promotions are performance based and equitable	0.456	
There is no discrimination in staff training	0.416	
The employee benefits are better as compared to other Organizations in similar category		0.161
Job appraisals practiced, are performance based and equitable		0.14
Appropriately qualified staff occupy all key positions of the council		0.045
The council has the right number of staff		0.008

#### **4.7.2 Descriptive Analysis- Human Resource Management Practices**

The fourth objective of the study was to investigate whether human resource management has an influence in performance contracting in local authorities in Kenya. Table 4.23 illustrates that 59% of the respondents disagreed that there was an elaborate human resource policy, 93% disagreed that vacant positions are advertised for competitive selection of qualified candidates and 94% disagreed that employees are recruited on merit based on qualifications and work experience. Sixty seven percent disagreed that training and development is based on capacity, needs and capacity objectives and 84% disagreed that upgrading/promotions are performance based and equitable.

Finally, 71% of the respondents disagreed that there was NO discrimination in staff training. The scores in this section indicates that more employees disagreed that human resource management practices influenced performance contracting. This is evidenced by a mean of 72% who disagreed on the statements.

The findings contrast with those in Bouckaert, Verhoest and De Corte (1999) who attempted to analyze the public sector performance contracting in Belgium and Flanders. The paper analyzed the effects of contract management on several organizational dimensions such as human resources management, financial management and cost consciousness, internal organizations and external relations. In the field of human resource management, the paper claimed that performance contracting had improved the performance orientedness of human resources management and increased the flexibility of allocating the right person to the right job. In the area of finance management, the paper claimed that the use of

performance-based contracts has induced an increased cost consciousness. In addition, the use of contracts and the accompanying increase of operational autonomy have also induced some developments in the internal structure.

The findings also contrast with Schermerhorn (2002) who avers for organization to achieve its objectives there must be appropriately skilled employees in all levels of management at all times. The findings at the same time contrast with Armstrong (2006) who asserts that best human resource practices includes recruiting the right people, training and developing personnel to improve on skills, appraising performance and providing adequate benefits and incentives.

The findings imply that the local authorities have not put in place effective human resource management practices which means that there are no human resource policies at the council, the vacant positions are not advertised for competitive selection of qualified candidates and the employees were not recruited on merit based on qualifications and work experience.

**Table 4.23: Human Resource Management Practices**

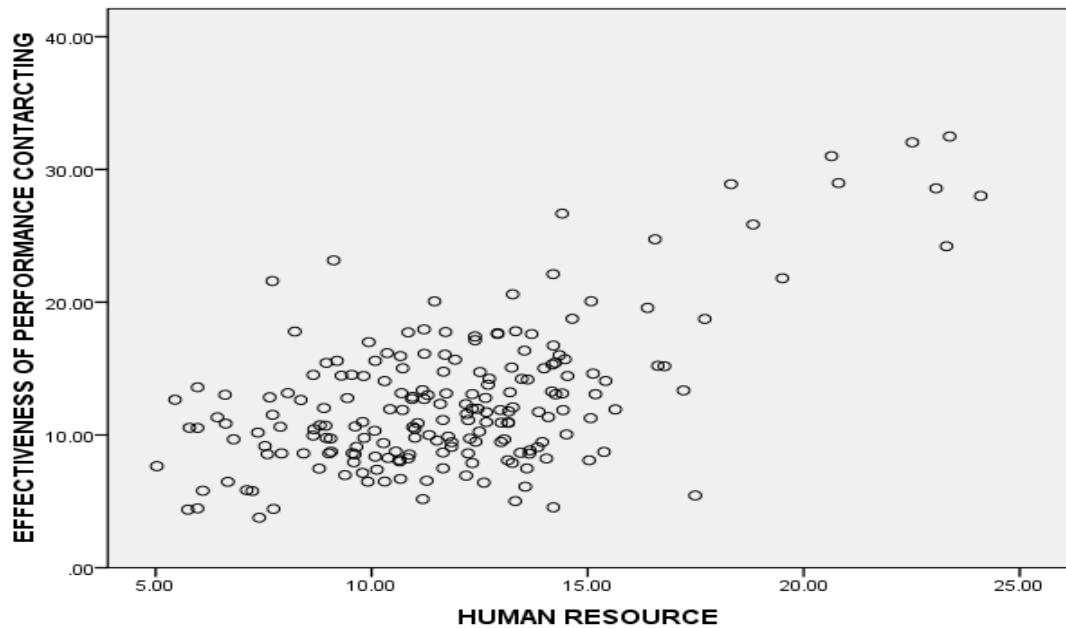
<b>Statement</b>	<b>Strongly Disagree</b> %	<b>Disagree</b> %	<b>Neutral</b> %	<b>Agree</b> %	<b>Strongly Agree</b> %
There is an elaborate human resource policy	46	13	33	5	3
Vacant positions are advertised for competitive selection of qualified candidates	34	59	1	3	3
Employees are recruited on merit based on qualifications	45	49	1	4	2

<b>Statement</b>	<b>Strongly Disagree %</b>	<b>Disagree %</b>	<b>Neutral %</b>	<b>Agree %</b>	<b>Strongly Agree %</b>
and work experience					
Training and development is based on capacity, needs and capacity objectives	27	41	3	24	6
Upgrading/promotions are performance based and equitable	35	49	3	11	3
There is no discrimination in staff training	40	31	4	20	5
<b>Mean</b>	<b>35</b>	<b>37</b>	<b>9</b>	<b>15</b>	<b>4</b>

### **4.7.3 Relationship Between Human Resource and Effectiveness of Performance Contracting**

Figure 4.8 shows the scattered plot of human resource practices and performance contracting. The figure reveals that there was a positive relationship between the two variables. The figure indicates that a positive relationship exists. Therefore, an increase in the effectiveness of human resource practices affects effectiveness of performance contracting positively.





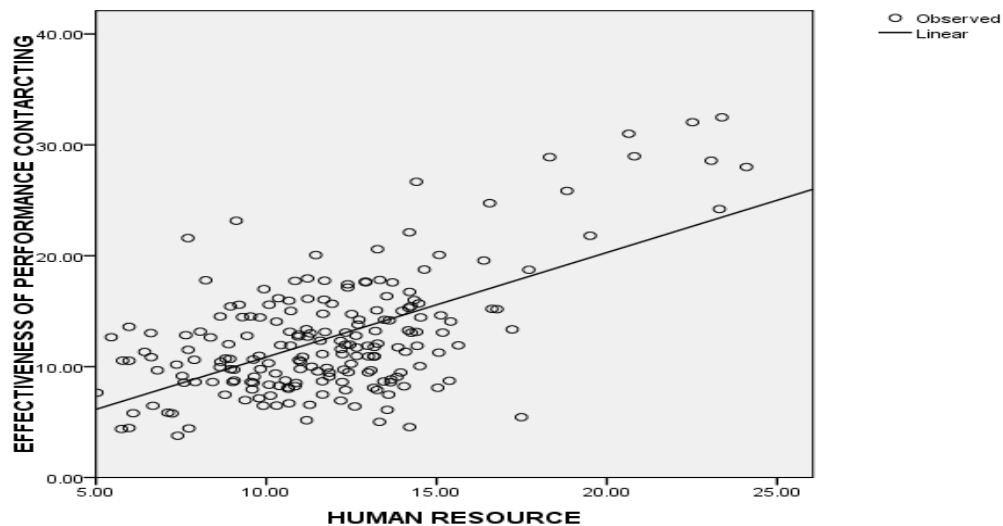
**Figure 4.8: Scatter Plot Relationship Between Human Resource and Performance Contracting**

Table 4.24 displays the results of correlation test analysis between the dependent variable (performance contracting) and human resource practices. Results on Table 4.24 show that performance contracting was positively correlated with human resource practices. This reveals that any positive change in human resource practices led to increased effectiveness of performance contracting.

**Table 4.24: Correlation Results for Human Resource Practices and Performance Contracting**

Variable		Effectiveness of performance contracting	Human resource
Effectiveness of performance contracting	Pearson correlation	1	0.601
	Sig. (2-tailed)		0.000
Human resource	Pearson correlation	0.601	1
	Sig. (2-tailed)	0.000	

Figure 4.9 is a diagrammatic representation of the relationship between human resource and effectiveness of performance contracting. The figure indicates that a positive relationship exists. The figure shows a moderate positive relationship.



**Figure 4.9: Linear Relationship Between Human Resource and Performance Contracting**

Regression analysis was conducted to empirically determine whether human resource practices was a significant determinant of performance contracting. Regression results in Table 4.25 indicate the goodness of fit for the regression between human resource practices and performance contracting was satisfactory. An R squared of 0.361 indicates that 36.1% of the variances in the effectiveness of performance contracting in the local authorities are explained by the variances in the human resource practices. The correlation coefficient of 0.601 indicates that the combined effect of the predictor variable have a moderate and positive correlation with effectiveness of performance contracting.

**Table 4.25: Model Summary for Human Resource Practices**

<b>Indicator</b>	<b>Coefficient</b>
R	0.601
R Square	0.361
Std. Error of the Estimate	4.34291

The overall model significance was presented in table 4.26. An F statistic of 111.818 indicated that the overall model was significant as it was larger than the critical F value of 3.88 with (1, 198) degrees of freedom at the P=0.05 level of significance. This was supported by a probability value of (0.000). The reported probability of (0.000) is less than the conventional probability of (0.05). The probability of (0.000) indicated that there was a very low probability that the statement “overall model was insignificant” was true and it was therefore possible to conclude that the statement was untrue.

The study, therefore, fails to accept the null hypothesis,  $H_{04}$  at 95% confidence interval and concludes that there is a significant relationship between the human resource management practices and performance contracting in local authorities.

**Table 4. 26: ANOVA Between Human Resource Practices and Effectiveness of Performance Contracting**

<b>Indicator</b>	<b>Sum of Squares</b>	<b>Df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
Regression	2108.986	1	2108.986	111.818	0.000
Residual	3734.453	198	18.861		
Total	5843.44	199			

Table 4.27 displays the regression coefficients of the independent variable (human resource practices). The results reveal that human resource practices is statistically significant in explaining effectiveness of performance contracting of local authorities in Kenya. This is supported by beta of 0.943, p value =0.000. The results imply that a unit change in human resource practices will lead to a positive change in the effectiveness of performance contracting by the rate of 0.943.

**Table 4.27: Regression Coefficient for Human Resource Practices**

<b>Variable</b>	<b>Beta</b>	<b>Std. Error</b>	<b>t</b>	<b>Sig.</b>
Constant	1.433	1.102	1.301	0.195
Human resource	0.943	0.089	10.574	0.000

## **4.8 Governance Practices and Effectiveness of Performance Contracting**

### **4.8.1 Governance Practices Factor Analysis**

To reduce the number of variables to a meaningful interpretable and manageable set of factors, factor analyses was done. Out of the 11 questions only 2 were dropped and 9 were retained as they met the acceptable threshold 0.4 as per Sekaran (2007). Table 4.28 shows the factor analysis for governance practices and reveals that only two statements that had low coefficient of below 0.4 hence led to their dropping from regression analysis.

**Table 4.28: Governance Practices Component Matrix**

<b>Statement</b>	<b>Retained</b>	<b>Dropped</b>
Council decisions and actions are fair and impartial	0.636	
There is high level of accountability and transparency in this council	0.613	
The council involves stakeholders participation in its	0.532	

<b>Statement</b>	<b>Retained</b>	<b>Dropped</b>
operation		
The council has an anti-corruption policy	0.498	
Council by-laws are regularly and impartially enforced	0.497	
The council treats all employees and stakeholders equally	0.489	
The structure is working and followed to the letter	0.487	
There is NO political interference in the execution of council activities	0.452	
The council recognizes human rights in all its activities	0.451	
The council has an elaborate organizational structure		0.29
The council has an adequate and up to date set of by-laws		0.112

#### **4.8.2 Descriptive Analysis- Governance Practices**

The fifth and last objective of the study was to determine the role of governance in performance contracting in local authorities in Kenya. Results on Table 4.29 shows that 73% agreed that the structure was working and followed to the letter and 66% agreed that Council decisions and actions are fair and impartial. Fifty four percent agreed that Council by-laws are regularly and impartially enforced, 86% disagreed that there was NO political interference in the execution of council's activities and 58% disagreed that the council involved stakeholder's participation in its operations. Furthermore, 34% disagreed that the council had an anti-corruption policy, 54% disagreed that the council treats all employees and stakeholders equally, 50% disagreed that the council recognizes human rights in all its activities and 75% disagreed that there was high level of accountability and transparency in the council.

The responses in this section indicates that more employees agreed that governance practices was a key driver of performance contracting as evidenced by 50% who agreed and strongly agreed on the statements.

The findings are in tandem with those in Peters (1987) who asserted that decision making in local authority settings is a political process. In such a situation, decisions are typically not purely rational but rather incremental, adaptive and predetermined by interactions of political influence and sudden changes in the environment. He further stated that strategic planning had to be accomplished in a pluralistic environment where power is distributed among many and varied interest groups.

The findings further concur with those in Mburugu (2005) who in his study stated that, one of the main reasons for poor performance, low management morale and lack of management accountability in local authorities Maua included, is the pervasive tendency of politicians and ministries to treat local authorities as government departments, to require all major decisions to be made or approved by the Minister of local government, and to leave no room for the local authorities to be autonomous.

The findings also corroborate with those of Gao (2010) who conducted a study on 'Hitting the Target but Missing the Point: The Rise of Non-Mission-Based Targets in Performance Measurement of Chinese local governments.' Drawing on data collected in a 5-year field research project in one inland Chinese county, this article examines the causes, dynamics, and consequences of the rise of non-mission-based targets in local China. The authors argued that non-mission-based target are largely

an expedient policy adopted by Chinese reformers to deal with the pressing political need to ensure effective governance in local areas. However, the implementation of a performance measurement system with non-mission-based targets has unexpectedly given rise to serious governing problems. In the long run, the widespread use of non-mission-based targets may create daunting challenges that jeopardize the basis of governance.

The findings imply that the local authorities had put in place some governance practices measures such as an elaborate organizational structure, which was working and followed to the letter and the council decisions and actions are fair and impartial.

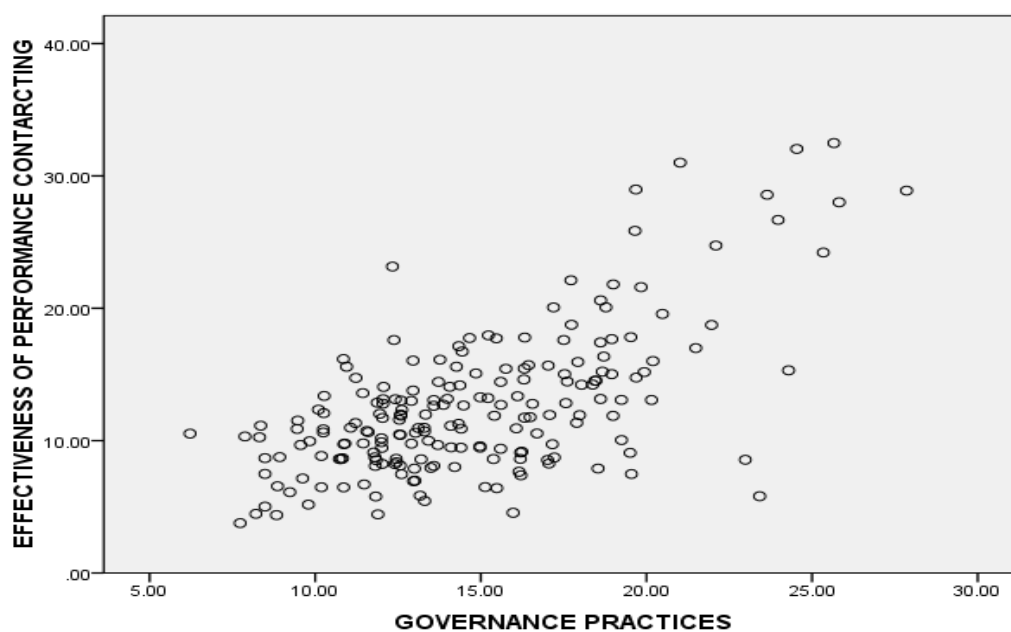
**Table 4.29: Governance Practices**

<b>Statement</b>	<b>Strongly Disagree</b> %	<b>Disagree</b> %	<b>Neutral</b> %	<b>Agree</b> %	<b>Strongly Agree</b> %
The structure is working and followed to the letter	4	13	11	37	36
Council decisions and actions are fair and impartial	2	28	4	47	19
Council by-laws are regularly and impartially enforced	8	34	4	47	7
There is NO political interference in the execution of council activities	46	40	3	8	3
The council involves stakeholders participation in its operation	14	44	3	33	6
The council has an anti-corruption policy	21	13	38	21	8
The council treats all employees and stakeholders equally	4	50	3	39	5

Statement	Strongly Disagree %	Disagree %	Neutral %	Agree %	Strongly Agree %
The council recognizes human rights in all its activities	7	43	6	40	5
There is high level of accountability and transparency in this council	29	46	3	18	4
<b>Mean</b>	<b>15</b>	<b>35</b>	<b>8</b>	<b>32</b>	<b>10</b>

#### 4.8.3 Relationship Between Governance Practices and Effectiveness of Performance Contracting

Figure 4.10 shows the scattered plot of governance practices and performance contracting. The figure reveals that there was a positive relationship between the two variables. Therefore, an increase in the effectiveness of governance practices affects performance contracting positively.





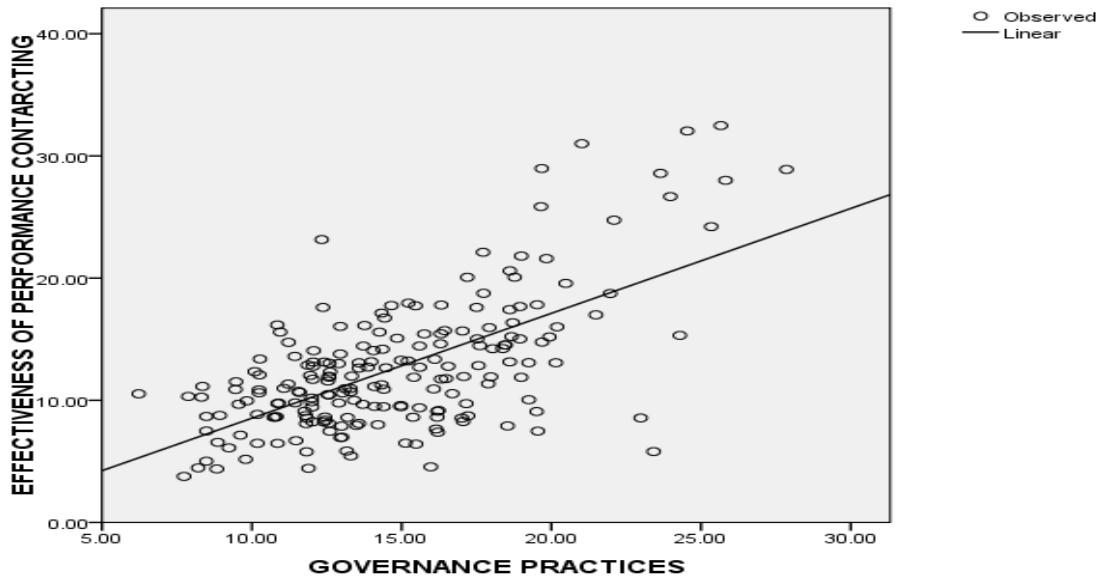
**Figure 4.10: Scatter Plot Relationship Between Governance Practices and Performance Contracting**

Table 4.30 displays the results of correlation test analysis between the dependent variable (effectiveness of performance contracting) and governance practices. Results on Table 4.30 show that performance contracting was positively correlated with governance practices. This reveals that any positive change in governance practices led to increased effectiveness of performance contracting.

**Table 4.30: Correlation Results for Governance Practices and Performance Contracting**

<b>Variable</b>		<b>Effectiveness of performance contracting</b>	<b>Governance practices</b>
Effectiveness of performance contracting	Pearson correlation	1	0.640
	Sig. (2-tailed)		0.000
Governance practices	Pearson correlation	0.640	1
	Sig. (2-tailed)	0.000	

Figure 4.11 is a diagrammatic representation of the relationship between governance practices and effectiveness of performance contracting. The figure indicates that a moderate and positive relationship exists.



**Figure 4.11: Linear Relationship Between Governance Practices and Performance Contracting**

Regression analysis was conducted to empirically determine whether governance practices was a significant determinant of performance contracting. Regression results in table 4.31 indicate the goodness of fit for the regression between governance practices and effectiveness of performance contracting was satisfactory. An R squared of 0.41 indicates that 41% of the variances in the effectiveness of performance contracting in the local authorities are explained by the variances in the governance practices. The correlation coefficient of 0.64 indicates that the combined effect of the predictor variables have a strong and positive correlation with effectiveness of performance contracting.

**Table 4.31: Model Summary for Governance Practices**

<b>Indicator</b>	<b>Coefficient</b>
R	0.640
R Square	0.410
Std. Error of the Estimate	4.17355

The overall model significance was presented in table 4.32. An F statistic of 137.473 indicated that the overall model was significant as it was larger than the critical F value of 3.88 with (1, 198) degrees of freedom at the P=0.05 level of significance. This was supported by a probability value of (0.000). The reported probability of (0.000) is less than the conventional threshold probability of (0.05). The p value is smaller than the alpha level of 0.05 and therefore it is possible to conclude that governance practices reliably predict the effectiveness of performance contracting.

The study, therefore, fails to accept the null hypothesis,  $H_{05}$  at 95% confidence interval and concludes that there is a significant relationship between the governance practices and performance contracting in local authorities.

**Table 4. 32: ANOVA for Governance Practices**

<b>Indicator</b>	<b>Sum of Squares</b>	<b>Df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
Regression	2394.573	1	2394.573	137.473	0.000
Residual	3448.866	198	17.419		
Total	5843.44	199			

Table 4.33 displays the regression coefficients of the independent variable (governance practices). The results reveal that governance practices are statistically significant in explaining effectiveness of performance contracting of local authorities

in Kenya. This is supported by  $\beta = 0.859$ ,  $p$  value = 0.000. This implies that a unit change in governance practices will lead to a positive change in effectiveness of performance contracting by the rate of 0.859.

**Table 4.33: Regression Coefficient for Governance Practices**

Variable	Beta	Std. Error	t	Sig.
Constant	-0.055	1.121	-0.049	0.961
Governance practices	0.859	0.073	11.725	0.000

#### 4.9 Multicollinearity Tests

Multicollinearity is defined as the degree of correlation among independent variables. Independent variable is highly correlated if it is above 0.9 (Hair, Black, Babin and Anderson, 2010). Although there is no definitive criterion for the level of correlation that constitutes a serious multicollinearity problem the general rule of thumb is that it should not exceed 0.75 (Allison, 1999). The Variance Inflation Factor (VIF) shows how much of the variance of a coefficient estimate of a regressor has been inflated due to collinearity with the other regressors. Basically, VIF factors above 10 are seen as cause of concern (Landau and Everitt, 2003). Table 4.34 shows that none of the variables have VIF factor values exceeding 10 and hence none give serious indication of multicollinearity.

**Table 4.34: Multicollinearity Tests**

Variable	Collinearity Statistics	
	Tolerance	VIF
Leadership	0.578	1.732
Financial Management	0.461	2.169
Information Technology	0.697	1.435
Human Resource	0.544	1.837
Governance Practices	0.404	2.473

### **Performance Contracting (Overall Model)**

A multiple regression analysis was conducted to investigate the joint causal relationship between the independent and dependent variables. Regression results in Table 4.35 indicated that the goodness of fit for the regression of independent variables and performance contracting is satisfactory. An R squared of (0.616) indicated that (61.6) of the variances in the effectiveness of performance contracting are explained by the variances in the determinants of effectiveness of performance contracting in local authorities in Kenya namely the combined effect of leadership style, finance management, human resource management, governance practices and information technology.

The results of the analysis presented on Table 4.35 showed that a combination of leadership style, finance management, human resource management, governance practices and information technology explained 61.6% of variation in effectiveness of performance contracting in local authorities in Kenya. This therefore indicated that the five independent variables had significant contribution to the effectiveness of performance contracting in local authorities in Kenya. The study concludes that the combination of the five variables yielded 61.6% variation hence 38.4% was explained by other factors not tested in this research.

**Table 4.35: Model Fit for Determinants of Performance Contracting**

<b>Indicator</b>	<b>Coefficient</b>
R	0.785
R Square	0.616
Std. Error of the Estimate	3.40146

ANOVA results were presented in Table 4.36. The results indicated that the overall model was significant, that is, the independent variables were good joint explanatory variables/determinants for effectiveness of performance contracting (F=62.211, P value =0.000). An F statistic of 62.211 indicated that the overall model was significant as it was larger than the critical F value of 3.88 with (1, 198) degrees of freedom at the P=0.05 level of significance. This was supported by a probability value of (0.000). The p value is smaller than the alpha level of 0.05 and therefore it is possible to conclude that leadership style, financial management practices, information technology, human resource management and governance practices reliably predict the effectiveness of performance contracting.

#### 4.10 Multiple Regression Analysis for the Determinants of Effectiveness of

**Table 4. 36: ANOVA results for the Determinants of Performance Contracting**

<b>Indicator</b>	<b>Sum of Squares</b>	<b>Df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
Regression	3598.869	5	719.774	62.211	0.000
Residual	2244.571	194	11.57		
Total	5843.44	199			

The correlation coefficient results were presented in Table 4.37. The correlation coefficient between the effectiveness of performance contracting and leadership style, financial management practices, information technology, human resource management and governance practices are 0.544, 0.730, 0.350, 0.601 and 0.640 respectively. The p values of the independent variables are all at 0.000 implying that the variables were all correlated with the dependent variable. Financial management was leading with the highest influence on performance contracting with a correlation

of 0.730, followed by governance practices with a correlation of 0.640, followed by human resource practices with a correlation of 0.601 followed by leadership with a correlation of 0.544 and finally was information technology with a correlation of 0.350. The study therefore concluded that all the independent variables were indicators of the effectiveness of performance contracting in local authorities in Kenya.

**Table 4: 37: Overall Pearson Correlation Coefficient**

<b>Variable</b>		<b>Perfor mance Contr acting</b>	<b>Leade rship</b>	<b>Financi al Manage ment</b>	<b>Infor matio n Techn ology</b>	<b>Human Resourc e</b>	<b>Gov erna nce Prac tices</b>
Performance Contracting	Pearson Correlation Sig. (2-tailed)	1					
Leadership	Pearson Correlation Sig. (2-tailed)	0.544 0.000	1				
Financial Management	Pearson Correlation Sig. (2-tailed)	0.730 0.000	0.532 0.000	1			
Information Technology	Pearson Correlation Sig. (2-tailed)	0.350 0.000	0.403 0.000	0.359 0.000	1		
Human Resource	Pearson Correlation Sig. (2-tailed)	0.601 0.000	0.359 0.000	0.630 0.000	0.212 0.003	1	
Governance Practices	Pearson Correlation Sig. (2-tailed)	0.640 0.000	0.611 0.000	0.617 0.000	0.527 0.000	0.552 0.000	1

After the analysis the model arrived at was as follows;

$$Y = -2.66 + 0.168X_1 + 0.527X_2 + 0.004X_3 + 0.274X_4 + 0.267X_5$$

Performance contracting = -2.66 + 0.168 leadership styles + 0.527 financial management practices + 0.004 information technology + 0.274 human resource + 0.267 governance practice. The Y-intercept is -2.66 which is the predicted value of the effectiveness of performance contracting when all the other variables are 0 implying that without inputs of the independent variables the effectiveness of performance contracting would be -2.66.

Regression results in Table 4.38 indicate the intercept is -2.66 meaning that the effectiveness of performance contracting will be -2.66 without inputs from the independent variables of sound leadership, financial management practices, human resource management and sound governance practices. The other coefficients tell about the relationship between the independent variables and the dependent variable. It indicates that the relationship between the effectiveness of performance contracting and leadership style was positive and significant (beta=0.168, p value, 0.025). This implies that an increase in the effectiveness of leadership style by 1 unit leads to an increase in effectiveness of performance contracting by 0.168 units.

The results further indicated that the relationship between performance contracting and financial management practices was positive and significant (beta=0.527, p value, 0.000). This implies that an increase in the effectiveness of financial



management practices by 1 unit leads to an increase in effectiveness of performance contracting by 0.527 units.

Results on Table 4.38 further indicated that the relationship between effectiveness of performance contracting and human resource practices was positive and significant (beta=0.274, p value, 0.004). This implies that an increase in the effectiveness of human resource practices by 1 unit leads to an increase in effectiveness of performance contracting by 0.274 units.

Results on Table 4.38 also indicated that the relationship between performance contracting and governance practices was positive and significant (beta=0.267, p value, 0.005). This implies that an increase in the effectiveness of governance practices by 1 unit leads to an increase in effectiveness of performance contracting by 0.267 units.

However the results indicated that information technology had a positive but insignificant relationship with the effectiveness of performance contracting.

Table 4.38 shows that four independent variables namely leadership, financial management, human resource management and governance practices positively affect the effectiveness of performance contracting in local authorities in Kenya. This was evidenced by the fact that the p value of all of them have not surpassed the threshold of  $p \leq 0.05$ . Information technology with a significance of 0.968 has surpassed the threshold and therefore considered insignificant.

**Table 4:38 : Overall Regression coefficient**

<b>Variable</b>	<b>Beta</b>	<b>Std. Error</b>	<b>t</b>	<b>Sig.</b>
Constant	-2.66	1.21	-2.199	0.029
Leadership	0.168	0.074	2.254	0.025
Financial Management	0.527	0.081	6.506	0.000
Information Technology	0.004	0.102	0.041	0.968
Human Resource	0.274	0.095	2.890	0.004
Governance Practices	0.267	0.094	2.842	0.005

The optimal model was presented in table 4.39. Since the four variables namely leadership style, financial management practices, human resource management and governance practices have all surpassed the threshold  $p \leq 0.05$  they indicate significance. Information technology has been dropped since it is insignificant and therefore considered not relevant in the model.

**Table 4.39: Optimal Model Summary and Parameter Estimates**

<b>Variables</b>	<b>Beta</b>	<b>Std. Error</b>	<b>T</b>	<b>Sig.</b>
Constant	-2.66	1.21	-2.198	0.029
Leadership Style	0.168	0.074	2.270	0.025
Financial Management Practices	0.527	0.081	6.506	0.000
Human Resource	0.274	0.095	2.884	0.004
Governance Practices	0.267	0.094	2.842	0.005

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presents the summary of key findings of the study, relevant discussions, conclusions and the necessary recommendations. The study sought to determine the effect of leadership style, financial management practices, Information technology, human resource management and governance to effectiveness of performance contracting in service delivery of local authorities in Kenya.

The summary is done in line with the objectives of the study based on the output of the descriptive and inferential statistical analyses guided to test the research hypothesis of the study. Each recommendation traces directly to each conclusion in line with practice and policy.

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

##### **5.2.1 Leadership Style and Effectiveness of Performance Contracting**

The first objective of the study was to investigate whether leadership style influences performance contracting in local authorities in Kenya. Various methods were used to arrive at the findings. These methods included descriptive statistics and regression analysis. Correlation analysis conducted established that leadership style had a positive correlation of 0.544 and this was significant at 0.000. This indicated that leadership style met the threshold since the precision level was less than  $p \leq 0.005$ .

Regression analysis results indicated that leadership style had a variation of 29.6% that was explained in terms of effectiveness of performance contracting in local authorities in Kenya. Leadership style was significant at 0.000. The results therefore concluded that leadership style positively affect effectiveness of performance contracting in local authorities in Kenya. The findings indicated that local authorities had effective leadership style.

This observation was arrived at since the local authority had proper delegation of duties to enhance service delivery, there was proper co-ordination between the departments, and there was good guidance to the staff in executing their duties by supervisors. In addition local authority leaders made clear guidelines to ensure effective performance, the local authority also had a participatory of senior management and all leaders in local authority had visible management qualities. The findings therefore confirmed that leadership style is a determinant of performance contracting but at an insignificant level.

### **5.2.2 Financial Management Practices and Effectiveness of Performance Contracting**

In order to determine the extent to which financial management practices influence performance contracting of local authorities in Kenya, descriptive statistics and regression analysis were conducted. Correlation analysis conducted established that financial management had a positive correlation of 0.73 and this was significant at 0.000. This indicated that leadership style met the threshold since the precision level was less than  $p \leq 0.005$ .

Regression analysis results indicated that leadership style had a variation of 53.3% that was explained in terms of effectiveness of performance contracting in local authorities in Kenya. Leadership style was significant at 0.000. The results therefore concluded that leadership style positively affect effectiveness of performance contracting in local authorities in Kenya. Results indicated that local authorities had poor financial management practices.

Specifically, the study showed that the budget variances were not investigated and rectified, revenue collection and usage was not free from political interferences and all debtors were not followed in time. In addition, the local authority had not reduced outstanding figures of rent and rate, the revenue potential assessment studies were not regularly done and the council was in financial distress since it did not collect adequate revenue to sustain itself. The findings therefore confirmed that financial management practices were a key determinant of performance contracting implementation.

### **5.2.3 Information Technology and Effectiveness of Performance Contracting**

The third objective of the study was to determine the effect of information technology in performance contracting in local authorities in Kenya. To meet this objective, descriptive statistics, regression analysis and ANOVA was conducted. Correlation analysis conducted established that financial management had a positive correlation of 0.35 and this was significant at 0.000. This indicated that leadership style met the threshold since the precision level was less than  $p \leq 0.005$ .

Regression analysis results indicated that leadership style had a variation of 12.3% that was explained in terms of effectiveness of performance contracting in local authorities in Kenya. Leadership style was significant at 0.000. The results therefore concluded that information technology positively affect effectiveness of performance contracting in local authorities in Kenya. Results indicated that local authorities had poor financial management practices.

Results indicated that local authorities had embraced the technological changes taking place in the world. Specifically, results indicated that they had Local Authority Integrated Financial Operating Systems (LAIFOMS) to collect, analyze and report data, there are trained personnel to manage the information systems and financial reports generated through LAIFOMS are more accurate and timely.

In addition, the information system was used to process, disseminate and ensure feedback of information from various sources and there were enough modern computers in the council which enabled production of timely computer generated reports. However, local authorities did not have enough computer literate employees and had no automation policy which means that they were still slow in service delivery. The findings led to a conclusion that information technology was a driver in implementation of performance contracting in the local authorities though at an insignificant level.

#### **5.2.4 Human Resource Management Practices and Effectiveness of**

##### **Performance Contracting**

The study attempted to investigate whether human resources management practices contributes to effectiveness in performance contracting in local authorities. The type of analysis used includes descriptive statistics, regression analysis and parametric analysis. Correlation analysis conducted established that Human resource management had a positive correlation of 0.35 and this was significant at 0.000. This indicated that leadership style met the threshold since the precision level was less than  $p \leq 0.005$ .

Regression analysis results indicated that leadership style had a variation of 12.3% that was explained in terms of effectiveness of performance contracting in local authorities in Kenya. Leadership style was significant at 0.000. The results therefore concluded that leadership style positively affect effectiveness of performance contracting in local authorities in Kenya. Results indicated that local authorities had poor financial management practices.

Results indicated that local authorities have poor human resource management practices. Specifically, local authorities do not conduct comprehensive interviews before hiring. Local authorities do not consider experience and qualifications during hiring and promotions and local authority performance appraisals are not supported by rewards. The finding implies that human resources management practices in local authorities are ineffective especially in the area of hiring and recruitment, promotions, and rewarding of performance. Results further indicated that poor

human resource management practices contributed to the low morale of staff, unqualified personnel thus contributing to poor performance contracting in local authorities. The findings confirmed that human resource practices were a key determinant in the implementation of performance contracting in the local authorities.

### **5.2.5 Governance Practices and Effectiveness of Performance Contracting**

The fifth and last objective of the study was to determine the role of Governance in performance contracting in local authorities in Kenya. Descriptive statistics, regression analysis and ANOVA were conducted. Correlation analysis conducted established that governance practices had a positive correlation of 0.64 and this was significant at 0.000. This indicated that leadership style met the threshold since the precision level was less than  $p \leq 0.005$ .

Regression analysis results indicated that leadership style had a variation of 41% that was explained in terms of effectiveness of performance contracting in local authorities in Kenya. Leadership style was significant at 0.000. The results therefore concluded that leadership style positively affect effectiveness of performance contracting in local authorities in Kenya. Results indicated that local authorities had poor financial management practices.

Results indicated that the government regulation on local authorities was fair and effective. Specifically, the results indicated that local authorities have elaborate organizational structures which were working and followed to the letter and decisions and actions are fair and impartial. In addition, local authorities have



adequate and up to date set of by-laws and the by-laws are regularly and impartially enforced. The key finding was that governance practices were a key driver in the implementation of performance contracting.

### **5.2.6 Performance Contracting**

The study investigated the employees' perception on effectiveness of performance contracting in service delivery in local authorities in Kenya and concluded that there were poor measures of performance contracting at local authorities. Specifically, results indicated that there were no strong systems that guided performance contracting in the local authorities in Kenya. Most respondents disagreed that they have signed a performance contract, the councils complied 100% with the budget and councils' funds were utilized on programmed activities. This implies that there were very poor measures of performance contracting at local authorities in Kenya.

## **5.3 Conclusion**

### **5.3.1 Leadership Style and Performance Contracting**

The study concludes that the leadership styles of local authorities are fair and effective. The effective leadership styles may have led to the effectiveness of performance contracting being witnessed in local authorities. It can be concluded from this study that there exists a positive and significant relationship between leadership styles and performance contracting. This implies that leadership styles were statistically significant in explaining effectiveness of performance contracting of local authorities in Kenya.

### **5.3.2 Financial management Practices and Performance Contracting**

The study concludes that the financial management practices of local authorities are poor and ineffective. It can be concluded from this study that there exists a positive significant relationship between financial management practices and performance contracting of local authorities. The results reveal that financial management practices are statistically significant in explaining effectiveness of performance contracting of local authorities in Kenya.

### **5.3.3 Information Technology and Performance Contracting**

The study concludes that local authorities rated the effectiveness of information technology highly and they also rated the information technology as adequate. This indicated that they were optimistic about the information technology and how it had impacted on the operations of the local authorities but also noted that it is a case of “too little too late” since the adoption of information technology was slow due to illiterate employees. The management information system (MIS) also known as LAIFOMS has also been introduced in local authorities and are therefore adequate to collect, analyze and report data or financial information.

Meanwhile, it is also possible to infer that the relationship between Information technology and performance contracting is positive and significant. The study shows that information technology was statistically significant in explaining effectiveness of performance contracting of local authorities in Kenya.

#### **5.3.4 Human Resource Management Practices and Performance Contracting**

The study concludes that the human resource practices especially in the area of hiring and recruitment, promotions, and rewarding of performance were ineffective. The ineffective human resource management practices contribute to ineffective performance contracting of local authorities. There is a positive and significant relationship between human resource management practices and performance contracting. These findings imply that human resource practices were statistically significant in explaining effectiveness of performance contracting of local authorities in Kenya.

#### **5.3.5 Governance Practices and Performance Contracting**

The study concludes that the government regulation on local Authorities was fair and effective. Specifically, the study concludes that the council has an elaborate organizational structure, the structure was working and followed to the letter and the Council's decisions and actions are fair and impartial. The study concludes that there is a positive and significant relationship between governance practices and performance contracting. This implies that governance practices were statistically significant in explaining effectiveness of performance contracting of local authorities in Kenya.

#### **5.3.6 Performance Contracting**

It was possible to conclude from the study findings that there were poor measures of performance contracting at local authorities. There were no strong systems that

guided performance contracting in the local authorities in Kenya. The councils were not ISO certified, they had not signed a performance contract, they never complied 100 with the budget and their funds were not utilized on programmed activities.

## **5.4 Recommendations**

The following recommendations were derived from the findings and conclusions of the study.

### **5.4.1 Leadership Style and Performance Contracting**

Modern management styles engages leadership as a very pertinent function and hence top management need to ensure that good leadership by example is taken into consideration in a very democratic style. Administrative procedures and manual need to be put in place and sensitized to employees down the line. The study recommended that local authorities management should emphasize and enhance good leadership styles in the organization. They should also ensure that they engage the employees views whenever making changes in the authority so that there will be smooth operations of the activities.

### **5.4.2 Financial management Practices and Performance Contracting**

The study recommended tha local authorities should put in place measures to safeguard the independence and effectiveness of internal audit departments as such department is crucial in the implementation of internal controls. The finance and revenue collection departments should also uphold tenets of professionalism,

integrity and should be regularly trained and join professional bodies. Sound financial management practices should be enhanced in line with the best practices.

#### **5.4.3 Information Technology and Performance Contracting**

The study recommended that those local authorities who have already implemented LAIFOMS should ensure that all modules should be fully operationalized, for instance, integration of payroll and statutory deductions with the main accounting system producing the annual financial statements and ensuring that all employees are computer literate. In all local authorities, software should be adopted as the only operating tool to embrace inclusiveness of all operations. It is also recommended that ICT skills for local authority staff should be enhanced through training. The local authorities should invest in more computers and ICT software as doing so would improve the financial fortunes of such local authorities in line with the globalization trend of paperless offices.

#### **5.4.4 Human Resource Management Practices and Performance Contracting**

From the study conclusions, there were ineffective human resource management practices at local authorities. The study recommends that local authorities should improve hiring practices to ensure that hiring should be done in line with qualifications. To improve hiring practices, the independence of the human resource department need to be supported by the executive and political wing. Consequently professional bodies should be used in recruitment. Performance appraisals that are supported by rewards should be introduced so as to improve the staff morale.

#### **5.4.5 Governance Practices and Performance Contracting**

The study also recommends that the council should enhance elaborate organizational structure and working smoothly. The council should also ensure that the by-laws are regularly and impartially enforced and ensure that there is no political interference in the execution of council activities. The study also recommends that the council should continue to involve the stakeholders' participation in its operation to ensure quality service delivery to their customers.

#### **5.5 Suggested Areas for Further Research**

The study focused on local authorities whereby only 18 local authorities were studied. The benefits of performance contracting surpasses the costs in public sector. There is therefore an opportunity to study other organizations in Kenya such as State corporations, learning institutions and government ministries to enhance generalization.

The study was confined to five variables namely leadership style, financial management, human resource management, governance practices and information technology. Further empirical work is encouraged to test other measures like demographic characteristics and socio- economic factors. Future studies should apply different research instruments like focus group discussions to involve respondents in discussions in order to generate detailed information which would help improve performance contracting implementation.

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## APPENDICES

### Appendix I: Letter of Authorization

Date.....

Elliubs M. Kimura  
P.O. Box 14690-00100  
Nairobi - Kenya  
Email: [elliubskimura@yahoo.com](mailto:elliubskimura@yahoo.com)

To  
The Town / County Clerk  
P.O. Box .....

Dear Sir,

**RE: Research on “Determinants of the Effectiveness of Performance Contracting in Service Delivery in Local Authorities in Kenya”**

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I am a student pursuing a doctorate degree in Business Administration- Strategic Management Option at Jomo Kenyatta University of Agriculture and Technology. I am undertaking a research thesis as partial fulfillment for the award of this degree. My research topic is stated above and kindly request for your assistance in making my research a success.

This purpose of this letter is therefore to request you to grant permission to collect relevant data from your Local Authorities from selected respondents among your staff. I assure you that all the data collected will be treated with utmost confidentiality and will be used for the purposes of this research only.

I look forward for a good working relationship during the time of this project.

Yours Sincerely

**Elliubs M. Kimura**  
**Student Reg No. HD433/1128/2010**

**Appendix II: Letter of Introduction**

**RE: LETTER OF INTRODUCTION AND QUESTIONNAIRE GUIDE**

Date.....  
To.....  
.....  
.....

Dear Sir/Madam,

**RE: COLLECTION OF RESEARCH DATA**

My names are Elliubs M. Kimura and I am a PhD student in Business Administration – Strategic Management Option at Jomo Kenyatta University of Agriculture and Technology. Currently I am carrying out a research on the “*Determinants of the Effectiveness of Performance Contracting in Service Delivery in Local Authorities in Kenya*”. I am in the process of gathering relevant data for this study. You have been identified as one of the respondents in this study and kindly request for your assistance towards making this study a success.

I therefore kindly request you to take some time to respond to the attached questionnaire. I wish to assure you that your responses will be treated with utmost confidentiality and will be used solely for the purpose of this study.

I thank you in advance for your time and responses. It will be appreciated if you can respond to the questionnaire in a weeks time to enable early finalization of the study.

Yours Sincerely,

**Elliubs M. Kimura**  
Student Reg No. HD433/1128/2010

### Appendix III: Questionnaire

This questionnaire is meant to establish the determinants of the effectiveness of performance contracting in service delivery in local authorities in Kenya. The questionnaire is meant for academic purposes only. Please respond to the questions objectively by ticking ✓ in the box provided.

**Objective of the study:** The objective of this study is to investigate determinants of the effectiveness of performance contracting in service delivery in local authorities in Kenya.

#### SECTION A. PERFORMANCE CONTRACTING IN SERVICE DELIVERY

1. The section has statements regarding the effect of performance contracting on service delivery of the council. Please tick ✓ as appropriate in the boxes below.

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
	1	2	3	4	5
I am aware that the council has a performance contract					
I have assigned a performance contract					
The council complies 100% with the budget					
The council funds are utilized on programmed activities					
The council undertakes periodical monitoring and evaluation to ensure compliance with the budget					
The council achieves the set revenue collection targets					
The council has a strategic plan					

<b>Statement</b>	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
The council complies 100% with the strategic plan					
I find my work challenging and interesting					
The council has a service delivery charter					
The council implements the service delivery charter 100%					
The council undertakes periodical monitoring and evaluation to ensure compliance with service delivery charter					
The council circulates the baseline survey results to the employees					
The council fully implements baseline survey recommendations					
The council is ISO certified					
The council provides adequate working tools and protective clothing to the employees					



## SECTION B. LEADERSHIP STYLE

The section has statements regarding the effects of leadership in performance contracting.

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	1	2	3	4	5
Leadership style of senior management is participatory					
Leadership qualities are visible in management					
Employees' views are taken into consideration in the management					
Proper delegation is done to enhance service delivery					
Employees are fairly empowered to be creative and innovative in their jobs					
There is proper co-ordination between the departments					
There is good guidance to the staff in executing their duties by supervisors					
Leaders make clear guidelines to ensure effective performance					
Leaders set sound performance standards					
Leaders motivate employees by rewarding good performance					

**SECTION C: FINANCIAL MANAGEMENT PRACTICES**

2. The section has statements regarding the effect of financial management on performance contracting. Please tick ✓ as appropriate

<b>Statement</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Financial procedures and reporting system are in place					
The council has internal capacity to prepare all financial reports and accounts					
Latest accounting information systems are used are used for generating reports for stakeholders					
Budget variances are investigated and rectified					
Revenue collection and usage is free from political interference					
All debtors are followed in time					
The council has favourably reduced outstanding figures of rent and rate					
Revenue potential assessment studies are regularly done					
There is an elaborate and effective internal control framework for detection and prevention of frauds					
Internal audit department exists					
The recommendations from both internal and external auditors are rectified immediately					
Internal audit free from any					

<b>Statement</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
interference					
The council collects adequate revenue to sustain itself					

#### **SECTION D: INFORMATION TECHNOLOGY**

The section has statements regarding the influence of information technology to performance contracting. Please tick ✓ as appropriately.

<b>Statement</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
The council has automation policy					
Local authorities integrated financial management system (LAIFOMS) exist to collect, analyze and report					
Trained personnel on LAIFOMS are in place to manage information systems					
Information systems are used to process, disseminate and ensure feedback of information from various sources					
Financial reports generated through LAIFOMS are more accurate and timely					

<b>Statement</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
There are enough modern computers in the council					
The council is able to produce timely computer generated reports					
Over 60% of the employees are computer literate					

#### **SECTION E. HUMAN RESOURCE MANAGEMENT PRACTICES**

The section has statements regarding the effect of human resource on performance contracting. Please tick appropriately.

<b>Statement</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
There is an elaborate human resource policy					
Vacant positions are advertised for competitive selection of qualified candidates					
Employees are recruited on merit based on qualifications and work experience					
Training and development is based on capacity, needs and capacity objectives					
Job appraisals practiced ,are performance based and equitable					

<b>Statement</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Upgrading/promotions are performance based and equitable					
Appropriately qualified staff occupy all key positions of the council					
The council has the right number of staff					
The employee benefits are better as compared to other organizations in similar category					
There is no discrimination in staff training					

## **SECTION F. GOVERNANCE PRACTICES**

The section has statements regarding the effect of governance on performance contracting. Please tick ✓ as appropriate.

<b>Statement</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
The council has an elaborate organizational structure					
The structure is working and followed to the letter					
Council decisions and actions are fair and impartial					
The council has an adequate and up to date set of by-laws					

<b>Statement</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Council by-laws are regularly and impartially enforced					
There is NO political interference in the execution of council activities					
The council involves stakeholders participation in its operations					
The council has an anti-corruption policy					
The council treats all employees and stakeholders equally					
The council recognizes human rights in all its activities					
There is high level of accountability and transparency in this council					

#### **Appendix IV: List of Local Authorities in Kenya**

<b>Column1</b>	<b>Type</b>	<b>Local Authority Name</b>
1	City Council	Mombasa
2	City Council	Kisumu
3	City Council	Nairobi
4	County Council	Migori
5	County Council	Baringo
6	County Council	Bomet
7	County Council	Bondo
8	County Council	Bungoma
9	County Council	Burere-Mumias
10	County Council	Bureti
11	County Council	Busia
12	County Council	Embu
13	County Council	Garissa
14	County Council	Gucha
15	County Council	Gusii
16	County Council	HomaBay
17	County Council	Ijara
18	County Council	Isiolo
19	County Council	kakamega
20	County Council	Keiyo
21	County Council	Kiambu
22	County Council	Kilifi
23	County Council	kipsigis
24	County Council	kirinyaga
25	County Council	Kisumu
26	County Council	Kitui
27	County Council	koibatek
28	County Council	Kwale
29	County Council	Laikipia
30	County Council	Lamu
31	County Council	Liugari
32	County Council	Makueni
33	County Council	Malindi
34	County Council	Mandera
35	County Council	Maragwa
36	County Council	Marakwet
37	County Council	Marsabit

<b>Column1</b>	<b>Type</b>	<b>Local Authority Name</b>
38	County Council	Masaku
39	County Council	Mberere
40	County Council	Meru
41	County Council	Meru south
42	County Council	Mount Elgon
43	County Council	Moyale
44	County Council	Murang'a
45	County Council	Mwingi
46	County Council	Nandi
47	County Council	Narok
48	County Council	Nyambene
49	County Council	Nyamira
50	County Council	Nyandarua
51	County Council	Nyando
52	County Council	Nyeri
53	County Council	Nzoia
54	County Council	Olkejuado
55	County Council	Pokot
56	County Council	Rachuonyo
57	County Council	Samburu
58	County Council	Siaya
59	County Council	Suba
60	County Council	Taita Taveta
61	County Council	Tana River
62	County Council	Teso
63	County Council	Tharaka
64	County Council	Thika
65	County Council	Trans Mara
66	County Council	Turkana
67	County Council	Vihiga
68	County Council	Wajir
69	County Council	Wareng
70	Municipal Council	Limuru
71	Municipal Council	Nyahururu
72	Municipal Council	Bomet
73	Municipal Council	Bungoma
74	Municipal Council	Busia
75	Municipal Council	Chuka
76	Municipal Council	Eldoret
77	Municipal Council	Embu



<b>Column1</b>	<b>Type</b>	<b>Local Authority Name</b>
78	Municipal Council	Garissa
79	Municipal Council	HomaBay
80	Municipal Council	kabarnet
81	Municipal Council	kakamega
82	Municipal Council	kapenguria
83	Municipal Council	kapsabet
84	Municipal Council	karatini
85	Municipal Council	Kehancha
86	Municipal Council	Kericho
87	Municipal Council	Kerugoya kutus
88	Municipal Council	Kiambu
89	Municipal Council	kimilili
90	Municipal Council	kisii
91	Municipal Council	Kitale
92	Municipal Council	Kitui
93	Municipal Council	Lodwar
94	Municipal Council	Machakos
95	Municipal Council	Malindi
96	Municipal Council	Maua
97	Municipal Council	Mavoko
98	Municipal Council	Meru
99	Municipal Council	Migori
100	Municipal Council	Mumias
101	Municipal Council	Murang'a
102	Municipal Council	Naivasha
103	Municipal Council	Nakuru
104	Municipal Council	Nanyuki
105	Municipal Council	Nyeri
106	Municipal Council	Ruiru
107	Municipal Council	Runyenjes
108	Municipal Council	Siaya
109	Municipal Council	Thika
110	Municipal Council	Vihiga
111	Municipal Council	Voi
112	Municipal Council	Webuye
113	Town Council	Iten-tambach
114	Town Council	Molo
115	Town Council	Ahero
116	Town Council	Awendo
117	Town Council	Bondo

<b>Column1</b>	<b>Type</b>	<b>Local Authority Name</b>
118	Town Council	Burnt forest
119	Town Council	chepareria
120	Town Council	Chogoria
121	Town Council	Eldama Ravine
122	Town Council	Funyala
123	Town Council	Kajiado
124	Town Council	kandara
125	Town Council	kangema
126	Town Council	kangundo
127	Town Council	karuri
128	Town Council	KenduBay
129	Town Council	Keroka
130	Town Council	Kikuyu
131	Town Council	Kilifi
132	Town Council	Kipkelion
133	Town Council	Kwale
134	Town Council	litein
135	Town Council	Londiani
136	Town Council	Luanda
137	Town Council	Makuyu
138	Town Council	Malaba
139	Town Council	Malakisi
140	Town Council	Malava
141	Town Council	Mandera
142	Town Council	Maragwa
143	Town Council	Maralal
144	Town Council	Mariakani
145	Town Council	Masimba
146	Town Council	Matuu
147	Town Council	Mbita Point
148	Town Council	Mtito Andei
149	Town Council	Muhoroni
150	Town Council	Mwingi
151	Town Council	Nakuru
152	Town Council	Nambale
153	Town Council	Nandi -hills
154	Town Council	Narok
155	Town Council	Nyamache
156	Town Council	Nyamarambe
157	Town Council	Nyamira

<b>Column1</b>	<b>Type</b>	<b>Local Authority Name</b>
158	Town Council	Nyansiongo
159	Town Council	Ogembo
160	Town Council	Ol' Kalou
161	Town Council	Othaya
162	Town Council	Oyugis
163	Town Council	Port Victoria
164	Town Council	Rongo
165	Town Council	Rumuruti
166	Town Council	Sagana
167	Town Council	Sirisia
168	Town Council	Sotik
169	Town Council	Suneka
170	Town Council	Tabaka
171	Town Council	Taveta
172	Town Council	Ugunja
173	Town Council	Ukwala
174	Town Council	Wote
175	Town Council	Yala

## Appendix V: Attribute Criteria

<b>Performance Grade</b>	<b>Composite Score</b>	<b>Percentage of Target</b>
Excellent	1.00-1.49	130 and above
Very Good	1.50-2.49	100-129.99
Good	2.50-3.49	70-99.99
Fair	3.50-3.59	50-69.99
Poor	3.60-5.00	0-49.99

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Source: Evaluation of Performance Contracting Report (2011)

## Appendix VI : Comparison of 10 Best Performing Corporations, Tertiary

### Institutions and Local Authorities

Position	Corporation	Composite Score	Tertiary Institution	Composite Score	Local Authorities	Composite Score
1.	KWAL	1.5131	KTTC	1.8619	Nyamache TC	2.2601
2.	Nyayo Tea Zones	1.5229	Eldoret Polytechnic	1.9661	Chuka MC	2.3059
3.	University of Nairobi	1.5843	Mawego TTI	2.1175	Masaku CC	2.3632
4.	Kenya Literature Bureau	1.8594	Sigalagala TTI	2.1641	BuretiCC	2.3637
5.	Kenyatta University	1.9426	Rift Valley TTI	2.1657	Nakuru MC	2.3701
6.	Kenya Pipeline Co.	1.9796	Kenya Inst. of Blind	2.1881	OI-Kejuado CC	2.3762
7.	NIB	1.9847	Thika TTI	2.1954	Thika CC	2.3799
8.	JKUAT	1.9851	Bumbe TTI	2.2177	Eldoret MC	2.3949
9.	Kenya Re	2.0009	Igoji TTC	2.2183	Nyeri MC	2.4084
10.	KICC	2.0121	Nyeri TTI	2.2876	Nyambene CC	2.4125

Source: Evaluation of Performance Contracting Report (2011)