

Role of Performance Contracting on Organizational Productivity in the Civil Service in Kenya, State Department of Infrastructure

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Abstract: *The management of the Public Service in Kenya has been a challenge and has been undergoing changes from time to time all geared towards improving service delivery to the citizens and none has born better results than performance contracting. Introduction of performance contracting emanated from the realization that public service was not clear about its goals as it had several functions with multiple objectives to fulfill where some were not related to their core mandate. It's also from realization that what gets measured gets done, a philosophy that has been practiced widely in the private sector.*

The study set to establish the role of performance contracting on organizational productivity in the civil service in Kenya and particularly in the State Department of Infrastructure. Literature was reviewed to broaden the view of the study and put the gap into perspective. The department under study is broadly divided into five divisions and a sample of 108 out of a population of 1072 employee was used which was got through stratified random sampling. Statistical Package for Social Scientists (SPSS) was used in the descriptive and inferential data analyses to establish meanings and relationships. Correlations revealed a strong relationship of (0.967) between performance contracting and productivity and an R-Squared indicated that performance contracting explained 98.3% of organizational productivity. Regression model established that a unit increase in performance contracting resulted to an increase in productivity by 1.55 units which is very significant at a p-value of 0.000. These results provided and revealed an important aspect bearing the effort and resources the government is putting in the tools which should be enhanced.

Key Words: *Performance Contracting, Productivity, Correlation and Regression Model*

I. Background

Poor performance in the Kenya public sector consistently hindered the realization of sustainable economic growth and development since the country attained her independence in 1963 (Mbithi, 1996). Among the noted factors that contribute to poor performance included: excessive regulations and control, frequent political interference, poor management, outright mismanagement of resources and lack of a guiding vision (Government of Kenya, 2005). Lack of clear focus as to what is expected from employees and poor or no methods of measuring performance has been the greatest challenge (Muthaura, 2007). The new Government elected in 2003 decided to manage public service through performance contracting system to address the situation.

Global Perspective

Globally, a paradigm shift in performance management as argued by Shaver (2006) and United Nations (2007) is as a result of different practices performance management by the public sector, explosion of knowledge and human rights activities. Ndung'u (2009) observed that Governments are faced with the challenge of improving service delivery while using fewer resources to deliver effective and efficient services demanded by the citizens. Gakera (2013) noted that in Asia, the performance contract concept has been used in Bangladesh, China, India, Korea, Pakistan and Sri Lanka. They have also been used at different times in Latin America, Argentina, Brazil, Bolivia, Chile, Colombia, Mexico, Uruguay and Venezuela. Others include Malaysia, United Kingdom, U.S.A, Canada.

In Belgium, performance contracting in the public sector dates back to the breaking of the traditional monolithic government in the 1830s and stipulated the compulsory public utility service being provided by the agency and the government's conditions (Bouckaert, Verhoest & Cortek 1999). Although the paradigm of performance contracting in Belgium dates back in the 1800s, its science originated from France in the 1960s according to research done by Bouckaert *et al* (1999) and subsequently embraced by Pakistan and Korea and India.

In United Kingdom (UK), performance contracting in public sector was introduced in 1998 as Public Service Agreement (PSA) system and outlined a set of performance targets which all government agencies were to report on (Metawie & Gilman 2005). Grapinet (1999) noted that in Finland, major public service reforms were introduced during 1987-1997 according to study on Public Sector Performance Contracting and the aim

was to make public agencies more responsible and accountable. In Denmark according to May (2005), performance contract played a major role in improving efficiency and increasing policy control and in United State of America (USA) according to Government Performance and Results Act of 1993, performance contract aimed at making federal departments more productive and therefore boosts citizens' confidence in their government.

Africa Perspective

In African countries, experience of poor performance public agencies called for new comprehensive public sector reforms strategy to address these problems. Countries such as Ghana, Nigeria, Gambia and Kenya are managing public service through performance contracting (Kobia & Mohammed, 2006). Ndung'u (2009) noted that the East African Community (EAC) Performance Contract 2008/2009 stipulated expectations of member states (Kenya, Uganda, and Tanzania) commitment for common achievement including implementation of Strategic Plan (2007-2012) which was to ensure that appropriate work plans are developed on the basis comprehensive performance targets.

Kenyan Perspective

In Kenya, Performance contracting concept can be traced back in 1990 through Cabinet Memorandum No. CAB (90) 35 when performance contracting paradigm was conceived and designed with an aim of having a real impact in changing the way things were being done, creating a new behavior patterns and adoption of positive attitude work ethics in the entire public service delivery (Kobia and Mohammed, 2006). The system was expected to return faith on government services to the citizens and other international stakeholders (Muthaura, 2007). The paradigm was later outlined in the Economic Recovery Strategy for Wealth and Employment Creation (ERS) 2003-2007.

Statement of the Problem

Service delivery and productivity in the Kenya civil service has been noted to be poor thus straining the national budget without equivalent results (Prajapati, 2009; Muthaura, 2007; GOK, 2005). In response, the government has been undertaking a number of reforms to address the situation. Such reforms include; Freezing of Employment (FE) and Structural Adjustment Program (SAP) in the early 1990s, Voluntary Early Retirement (VER) and Retrenchment Program (RP) in the mid 1990s early 2000s and introduction of Integrated Payroll and Personnel Database (IPPD), Salary Review and Strategies for uprooting corruption from the public service (DPM, 2010) among others.

In 2005, the government made a major stride by introducing performance contracting paradigm in the management of public service and a positive paradigm shift in performance has been recorded (Government of Kenya, 2010; Oduor, 2010; Muthaura, 2009; Prajapati, 2009; Obong'o, 2008; Kobia & Mohammed, 2006). Table 1.1 illustrates the trend of Economic Growth for the period 2003-2011 with implementation of performance contracting of which 6.9% of the National Gross Domestic Product (NGDP) is contributed by the infrastructure sector. The downwards trend for year 2008 were revised downwards due to the post-election violence and devastating famine and for global economic recession, inflation rates and draught during year 2011.

Table 1.2: Economic Growth for the Period 2003-2011

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011
% GDP rate	2.0	4.3	5.8	6.1	7.0	1.7	2.8	5.6	4.5

Source: GoK (2011)

Implementation of the performance contracting in the public service aimed at revolutionizing service delivery in the public service (Prajapati, 2009; Obong'o, 2008; Muthaura, 2007, Kobia & Mohammed, 2006).

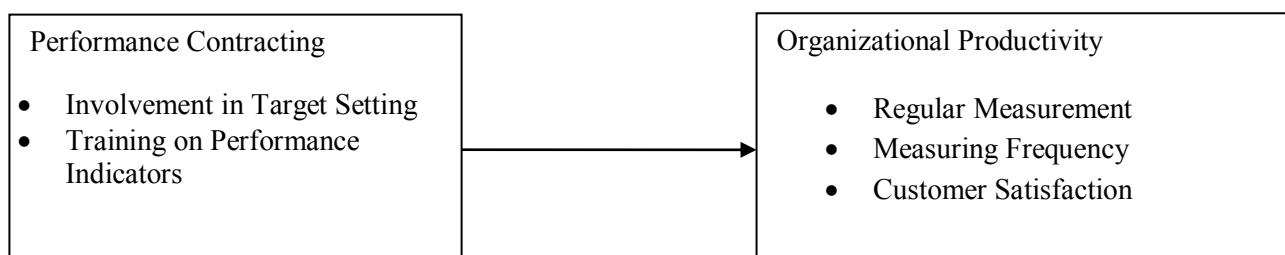
The above results notwithstanding, (Muthaura, 2007, Kobia & Mohammed, 2006 and GoK, 2010) reckoned that a deeper study was required to unearth and reveal understanding on the role of performance contracting on variables such as productivity, employees' motivation, organizational culture and effectiveness among others.

In view of the foregoing, this study therefore investigated the role of performance contracting on organizational productivity in the Civil Service in the state Department of Infrastructure.

II. Literature Review

Performance contracting is a summation of various bodies of knowledge applied together with an intention of improving organization performance. Various theories cutting across different bodies of knowledge have therefore been advanced to support and explain performance contracting paradigm. Muthaura (2007) asserts that performance contracting is both a philosophy and a tool for coordinating employees towards achievement of results. Performance contracting was premised to lead to increase in productivity.

Conceptual Framework



Regresses

Regressed

Figure 1: The Role of Performance Contracting on Organizational Productivity in the Civil Service in Kenya

Theoretical Literature

Relevant theories such as Scientific Management by F.W. Taylor (1856-1915), The Principles of Management: Henry Fayol (1841-1925), Bureaucracy by Max Weber Theory informed performance contracting heavily. Motivation Theories such as Rational-Economic Model, Social Model, Self-Actualizing Model, Complex Model, Abraham Maslow Model, McGregory Theory X and Theory Y, Herzberg's Two-Factor Theory, Achievement Motivation by McClelland and Vroom's Expectancy Theory among others enabled the paradigm to be sensitive on the human aspect in the civil service.

Empirical Literature

Past studies were also reviewed to evaluate work already done in the area. In the study "*Performance Contracts in Kenya: Instruments for Operationalizing Good Governance*" based on the results for year 2005-2006, Prajapati (2010) observed that Performance Contract (PC) as an agreement between a government and a public agency which establishes general goals for the agency, sets targets for measuring performance and provides incentives for achieving these targets. The study revealed that any effort to measure performance results to positive results because employees' efforts are focused to organization's objectives thus improving performance. However the study failed to relate performance contracting to organization productivity.

Government of Kenya (2010) through a Panel of Experts set up to review Performance Contracting since its implementation in 2004 studied the PCs and shed light on areas such as: the framework and design of the performance contracting system applied since 2004; the performance contracting process; the performance contracting evaluation system and process; the critical learning points from the performance evaluation results reported over the past three financial years, and citizen participation, expectations and perceptions. The report also failed to relate performance contracting to productivity.

Ochieng (2010) in a study "*Public Sector Reforms and Performance Contracting*" observed that in the 1990s, Kenya's Public Service was among the countries which had suffered "damaged image" both locally and internationally. The study noted and revealed that performance contracting has instilled discipline to the public institutions by ensuring adherence to work-plans, strategic plans and sector plans. Vision 2030 which is the country's blue print has its foundation laid on performance contracting. The paradigm has also enabled recognition of performers from non-performers thus leading to a competitive public service. Obong'o (2009) in the review on performance contracting in Kenya for the 2005-2006 year results asserted that introduction of performance contracts by the government in 2004 has improved performance, service delivery and governance. The study was based on the secondary data based on results from the government.

Kobia & Mohammed (2006) reckon that performance contracting has revolutionized productivity in the public service though the study was qualitative. The results were based on 280 senior public servants who were attending a workshop at Kenya Institute of Administration. They were drawn from various ministries across the country implying the study was spread so thin to enable sound conclusion. The study noted in the "*Kenya Experience with Performance Contracting*" that Performance contracting ensures that employees are guided and facilitated by work-plans when they are made responsible for the results. The system enables measuring the extent to which the set targets has been achieved. The tool enables coordination of the individual, department, institution and ministries to derive their plans from the country's Vision 2030, which attempts to align human resource function with the strategic goal of the organization.

Muthaura (2007) argues that performance contracting forms a very strong base for employees' employment in permanent terms since they have to justify their stay in the payroll through and promotion through productivity and commented during the release the results for year 2006-2007 that "every employee has to justify why they should be retained in the payroll through performance". The study noted that performance contracting has demystified government and governance processes thus ensuring inclusion of grass roots level communities in ensuring achievement of Vision 2030.

Research Gap

The above literature notwithstanding, it's clear that no detailed study has been carried out on specific areas such as organization productivity, employees' motivation, organizational culture and organization effectiveness among others. This research study therefore was an investigation of role of performance contracting on organizational productivity in the civil service, in the State Department of Infrastructure.

III. Research Methodology

The study assessed the bivariate relationship between performance contracting and productivity in the civil service in Kenya. Target population was 1072 employees in the State Department of Infrastructure distributed within five divisions. They include: Kenya Institute of Highways and Building Technology (KIHBT) 161, Materials 145, Mechanical 198, Roads 305, and the Headquarters 263.

Stratified random sampling was used to develop the sample of 108 respondents using proportionate sampling strategy where the size of each stratum was proportionate to the population size of the stratum. It was considered appropriate to concentrate on the divisions' headquarters since they are the custodians of the departments' policies. Questionnaires' reliability of 0.922 was achieved using Cronbach Alpha. This measure was considered adequate for the study (Cooper & Schindler, 2011 and Zikmund *et al*, 2009). An independent professional from Performance Contracting Department was consulted to review the wording and content of the questionnaire to enhance content validity. Likert-type scale that ranged from 1 to 5 with the following equivalences, "1": "strongly disagree"; "2": "disagree"; "3": "neutral"; "4": "agree"; and "5": "strongly agree". Likert scale is a useful in measuring qualitative variables such as attitudes and perception (Kothari, 2004).

IV. Results

Response Rate

One hundred and two (102) respondents out of a target of 108 returned the questionnaire. This translated to 94%. All the 25 questionnaires distributed to training department were filled and collected which translated to a 100% response. Out of the 32 questionnaires distributed to administration department, 31 were filled and collected translating to a 96% response rate. The worst department was mechanical where 16 out of the 18 questionnaire distributed were filled and returned which translated to 88%. This is a high response rate compared to similar previous studies by Kobia & Mohammed (2006) that attained 87%, and Paul & Anantharaman (2003) achieved 75.5%. Babbie (2002) observed that in descriptive research, a response rate of above 50% is adequate for analysis, 60% is good and 70% and above is very good while according to Mugenda and Mugenda (2003), a response rate of 50% or more is adequate for qualitative studies.

20% of the respondents had an experience of 1-3years in service. 28% had an experience of 4-10 years, 41% had an experience of 11-20 years while 11% had an experience of more than 20 years. These findings imply that 80% of the employees had an experience of more than 4 years. Findings show that 15% of the respondents had stayed in their current department for less than 2 years (yrs < 2) while 56.9% had stayed for a period of 2-5 years. 25.5% had stayed in the department for 5-10 years. Only 2% of the respondents had departmental experience of more than 10 years (yrs > 10). The findings imply that 85% of the respondents have stayed in the current department for more than 2 years hence had understood the organizational culture necessary for performance.

Finding indicate that 2% of the respondents were less than 25 years of age (yrs < 25) while 12% were in the 24-34 years age bracket and 55% of the employees were in the 35-44 years bracket. 17% were in the 45-54 age bracket and 14% were over 55 years (yrs > 55). The findings imply that 86% of the employees are 35 years old implying that they had relevant experience.

On experience with performance contracting, findings indicates that 15.7% of the respondents had an experience of less than 2 years (yrs < 2), 56.9% had experience of 2-5 years while 25.5% had work with performance contracting for a period of 5-20 years. Only 2% had over 10 years (yrs >10) experience. This implies that over 80% had an experience of two years or above which was considered appropriate for implementing government policy.

Descriptive Analysis

(i) Impact of Departmental Regular Measurements

This item was investigating the respondents view on the impact of regular departmental measurement on productivity. Respondents were requested to provide information on likert scale of 1-5 and findings presented in Table 4.2 indicate that twenty eight per cent (28%) of the respondents strongly agreed that departmental regular measurements impacts positively on performance. Thirty six percent (36%) of the respondents agreed, twelve percent (12%) disagreed while none strongly disagreed that departmental measurements improve productivity. This implies that 64% of the respondents that regular measurement play part in the organization productivity.

These findings corroborate with findings by Prajapati (2010) who noted that measurements play a key role in employees' performance. Similarly Ombong'o (2008); Kervasdoue (2007) and (Kobia & Mohammed, 2006) observed performance contracting as a way of improving public service delivery. Drucker, (1998) reckon that what gets measured gets done, while Armstrong (2001) recommends that performance should have standards which should be quantifiable and measurable in terms of level of service or speed of response. Performance should be agreed upon when setting objectives and on methods of measurement. It can then be deduced from these findings that departmental regular measurements improves organizational productivity and the exercise should constantly be taken.

(ii) Establishment of Measurement Indicators for Customers Satisfaction

Respondents were tasked to provide information on a likert scale on whether departments in the ministry have established measurement indicators for customer and employee satisfaction. Findings presented in Table 4.2 further indicate that sixteen per cent (16%) of the respondents strongly agreed that measurements of customer and employees' satisfaction increased productivity while twenty five percent (25%) agreed. Fourteen percent (14%) were neutral while 38% disagree. Only 7% strongly disagreed. The findings imply that 41% agreed that their departments had established customer and employees satisfaction indicators.

The findings agree with Muthaura (2007); who assert that performance contracting has gradually improved profitability levels in the Commercial State Corporations due to close focus of the customers. Further, Gatere, Keraro & Gakure (2013) noted that productivity had increased through the introduction of citizen service delivery charters in the Teachers Service Commission (TSC) due to refocused on customers' needs. Similarly, Kobia & Mohammed (2006) observed that performance improvements have been recognized in the National Customer Satisfaction Survey where the overall customer satisfaction index was 63.5.

The findings implies that due to the civil service concentrating on the customer and employees' to determine their needs and requirements, effort is put to address the need hence increasing productivity. However not all departments are concentrating on the customers since some respondents disagreed.

(iii) Analysis of Annual Ranking and Benchmarking

As to whether the ministry analysis its position after the annual ranking using the best performers for benchmarking, findings presented in Table 4.2 indicate that twenty one percent (21%) of the respondents strongly agreed that analysis of results and ranking is done. Twenty five percent (25%) agreed while fourteen percent (14%) were neutral in their response. Thirty eight percent (38%) disagreed and seven percent (7%) strongly disagreed. This indicates that a slight majority the respondents (45%) disagreed on the ranking analysis and benchmarking within ministries.

The findings contradict a review of the performance contracting in the public service by the Government (2010) which observed that evaluation of the ministries after ranking has impacted positively to some ministries and negatively to some. The findings also disagree with Thackray (2002) who in the a study on "feedback system" observed that;

"..... positive effect of feedback on performance has become one of the most widely accepted principles in psychology". The article noted that with feedback system, simple workplace questions can spark employee-management action with measurable results".

It can be deduced that analysis of the results after ranking if properly done improves productivity because the employees are able to understand their strength and weaknesses. This however appear not to be taking place though employees agree is important since it provides feedback.

(iv) Training on Performance Indicators

This item was investigating whether respondents had been trained on the performance contracting indicators. Findings presented in Table 4.2 show that seven percent (7%) of the respondents strongly disagreed

on training while thirty one percent (31%) disagreed. Twenty one percent (21%) of the respondents agreed and 16% strongly agreed that they are trained on the different indicators. The findings imply that majority of the respondents (63%) have not received any training on performance contracting.

The findings are in agreement with Kobia & Mohammed (2006) who noted that seventy six percent (76%) of the respondents had not received any formal training on performance contracting while seventy four percent (74%) of those who had been trained argued that more training was need. Carter & McMahon (2005) argue that;

“.....Key Performance Indicators (KPIs) are *indicators* of performance and will not always be that precise and the parties need to accept this. They also need to accept that the indicators are not as critical as the performance improvement plan itself, which, by its very nature, will have a more strategic, longer-term perspective than measurement for one year”.

It can be deduced that training on performance contracting tool and performance indicators need to be improved to increase employees’ understanding and ownership of the tool for it to have positive impact in the service delivery. Employees need to have a clear view of the whole process.

(v) *Employees Involvement in Target Setting*

Respondents were asked to provide information on a likert scale of 1-5 whether there was any effect in involvement of employees in target setting on productivity. Findings presented in Table 4.2 further indicate that twelve percent (12%) strongly agreed that involving them in the target setting had strongly increased productivity. Sixteen percent (16%) agreed while thirty five percent (35%) disagreed. This implies that only twenty six percent (26%) of the respondents were involved in target setting.

These findings are in unison with Prajapati (2010) who noted that target setting by the employees had a positive impact since it provides focus and direction to the employees. Another study commissioned by the Government (2010) to evaluate the challenges faced in implementing performance contracting in Kenya found that employees target setting, monitoring and evaluations play key role on performance. Kobia & Mohammed noted that performance contracting foundations rests on involving employees in target setting. Luthans (2008) noted that goal setting and achievement is a major factor that influences the success levels of individual employees, teams, departments and organizations.

It can be deduced that involving employees in any decision pertaining to their work especially in target setting improves on performance. Setting targets and measuring performance provides incentives for achieving these targets that must be guided by mutual agreement between contracting parties hence need to be enhanced.

Inferential Analysis

Correlation between Performance Contracting and Productivity

Findings indicate that performance contracting has a strong and positive Pearson Correlation Coefficient of 0.967 at a p value of 0.000. This implies that performance contracting is significant on organization productivity since the p-value of 0.000, is less than the threshold p-value of 0.05. The results indicate the performance contracting has strongly influenced organization productivity because the correlation is close to positive perfection of 0.967 at $p=0.000$ ($p<0.05$).

Regression Analysis

Findings indicate that an R^2 of 0.983 which implies that performance contracting explain 98.7% of productivity in the civil service. A high value of R^2 suggests that the regression model explains the variation in the dependent variable well and the model can be used for predictive or forecasting purposes.

Table 1 R^2 -Value for Performance Contracting on Productivity

Model	R	R Square
1	0.991	0.983

Scatter Plot with a Linear Regression line Regressed

Figure 1 presents scatter plot with a linear regression line inscribed. The figure implies that the observed and the linear lines between performance contracting and productivity are positively related.

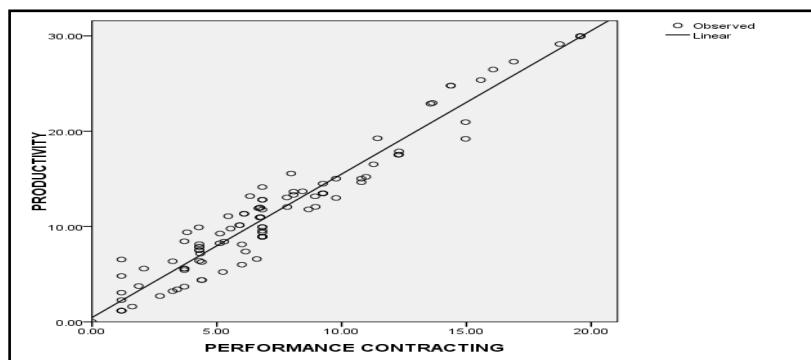


Figure 4.7 Scatter Plot with Regression line

Regression Model: Performance Contracting on Productivity

Table 2 presents the generated model relating performance contracting and productivity. The model implies that a unit increase in performance contracting result to increase in productivity by 1.55 which is very significant at p-value of 0.000. This implies performance contracting has born fruits since it results to increased productivity in the organization. That is:

$$Productivity = 1.55 * Performance Contracting$$

Table 4.8 Regression Model: Performance Contracting on Productivity

		Coefficients				
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	Performance Contracting	1.551	.020	.991	75.714	.000

a. Dependent Variable: Productivity

b. Linear Regression through the Origin

V. Summary, Conclusion And Recommendations

Summary; Performance Contracting on Organization Productivity

Objective of this study was to establish the role of performance contracting on productivity in the civil service. Various methods were used to arrive at the findings which included descriptive and inferential statistics. Correlations and regression analysis were used.

Findings indicate that performance contracting leads to increase in productivity in the civil service. This observation was arrived at since the various factors measured that led to productivity proved worth. Such factors included target setting, understanding of the performance contracting goal and tool, measurement frequency and accountability based on authority and responsibility had a very strong influence on productivity.

Conclusion; Contribution of Performance Contracting on Organization Productivity

The study concludes that performance contracting tool leads to increased in productivity in the civil service. Since implementation of performance contracting in the civil service in Kenya, productivity has increased significantly. It can be concluded from the results presented in this study that there exist a positive significant relationship between performance contracting and productivity.

Recommendation for Improvement in Productivity in the Civil Service

Overall, it is recommended that various measures need to be put in place to entrench performance contracting in entire public service and if possible to the smallest units of operation. Training employees on the Performance Contracting tool, indicators and process, availing resources at the right time, reward performers and reprimand non performers also need to be followed strictly since “a law that has no penalty is no law”.

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