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**Determinants of Performance Contracting Results in Kenya: A Case of
Selected Ministries**

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Abstract

Purpose: Performance Contracting is a contractual agreement to perform a duty in accordance to agreed-upon terms, in a specified time frame and with a predetermined use of resources and performance principles. It originated in France in the late 1960s. The main purpose of the study is to establish the determinants of performance contracting results in government ministries in Kenya.

Methodology: The study used a descriptive research design. The target population of the study is Divisional heads, middle level managers and supervisors in 3 selected government ministries. These were Ministry of Education, Science & Technology, Ministry of Health and Ministry of Environment, Water & Natural Resources. Sample of 60 respondents was used.

Results: Results shows that there is a positive relationship between performance contracting and leadership, human resource management, finance management, information system management as supported by beta coefficients of 0.107, 0.788, 0.050 and 0.225 respectively.

Unique contribution to theory, practice and policy: Based on the finding the study recommends that the government should encourage the implementation of performance contracting in its ministries. This can be done through improving the leadership practices, human resource management practices, finance governance practices and information system management practices.

Keywords: *leadership, human resource management, finance management, information system management*

1.0 INTRODUCTION

A performance contract is an agreement between a government and a public agency which set up general goals for the agency. In addition, these agreements stipulate targets for measuring performance and offer incentives for attaining the set targets (Hunter and Gates, 2009). They include a various incentive-based mechanisms for managing public agencies which have effect on the outcome instead of the process. The positive results of Performance Contracts in various countries such as France, Pakistan, South Korea, Malaysia, India, and Kenya has stirred a great deal of interest in this policy around the world (Luo, 2002).

Over time, governments have continually encountered the challenge of desiring to do things differently but with limited resources. Performance contracting assists in solving this challenge by providing a way for achieving desired behavior in the contest of decentralized management structures. Employers' value performance contracting since it is a useful vehicle for defining roles and offer support to new managers in their supervisory and control roles. In addition, performance contracting gives managers freedom to execute their day-to-day responsibilities (Plantinga, De Ridder & Corra, 2008).

France was the first country to adopt performance contracting systems in the late 1960s. In the last fifteen years this system has been adopted in about 30 developing countries. In Asia, the Performance Contract model has been used in Bangladesh, China, India, Korea, Pakistan and Sri Lanka (GoK: Evaluation of Performance Contracting 2010). In the developed world, through performance contracting, countries such as France, the Netherlands and New Zealand have experienced great achievement in the public sector. However, the results in developing Countries referring to case studies in China, India, Morocco, South Africa, Cote D' Vore and Gambia among are mixed (Omboi and Kariuki, 2011).

1.2 Problem Statement

The government introduced performance contracts in 2003 since the performance of the public sector in general and specifically the government agencies had over time fallen below expectations (Office of the President – Performance Contracts Steering Committee, Sensitization Manual, 2005). However, despite this realization little research has been done to determine the determinant of performance contracts in Government Ministries in Kenya and their impact on performance.

The reviewed local studies Obong'o (2009) focused on historical perspective of the performance contracting in Kenya. He did not critically address the issue of performance contracting results in Government Ministries in Kenya. Studies by Muganda and Van Belle (2008) had a contextual gap since it focused on the local authorities only while this study addresses government ministries. Hence, this study sought to establish the determinant of performance contracting results in government ministries in Kenya.

1.3 Research Objectives

- i. To establish how leadership influences the performance contracting results of Government Ministries in Kenya.
- ii. To determine how human resource management influences the performance contracting results of Government Ministries in Kenya.

- iii. To establish how financial governance and management influences the performance contracting results of Government Ministries in Kenya.
- iv. To examine how Information System management influences the performance contracting results of Government Ministries in Kenya.

2.0 LITERATURE REVIEW

2.1 Theoretical Review

Agency theory

According to Jensen & Meckling (1976), Principal-agent theory in economics is based on several key assumptions about human and organizational behavior. First, individuals and organizations are assumed to be rational in the pursuit of their self-interest. This results to variance of interests between the principal (owner) and agent (producer). The disconnection of ownership from production results to increased cost and complexity in monitoring the agent's behavior. This builds up information asymmetry that is beneficial to the agent as he performs a task on behalf of the principal. Under these conditions, two agency problems arise: moral hazard and adverse selection.

Moral hazard refers to occurrence of opportunistic behavior by the agent. Differing interests and information asymmetry favors the agent through creating opportunities for the agent to engage in behavior that maximizes his utility but conflicting the goals of the principal (Kiser, 1999). Through monitoring, the principal discovers opportunistic behavior and ally the agent's behavior with his own goals. This helps in improving the outcomes of contractual relationships (Kiser, 1999). This theory is relevant to this study as the determinants of Performance Contracting Act as the agents of the departments and must act in good faith to fulfill the principles of the Principal.

Goal Setting Theory

Locke (1960) affirmed that patent goals and proper feedback motivates employees. Additionally, he said that when employees are motivated when they work towards a goal. Locke's study shed some light on the link between goals and performance. According to his study, specific and difficult goals resulted to better results and performance than those of vague, randomly set or easy to do goals. Locke and Bobko, (1984) suggested that assignment of specific goals not only result in improved performance but also leads to increased motivation (Mitchell & Stafford, 2000).

Goal-setting theory does not emphasis on rewards but rather stresses on the inspiring power of defining appropriate work goals and engaging employee commitment to them (Marsden, 2004). Several studies have tried to establish the relationship between goal-setting and performance. Most of the evidences support the theory strongly. Marsden and French, (2001), found out that employees caused managers to set targets more precisely where the objectives contracted performance. The theory is relevant to this study as Performance Contracts has a lot in setting goals and agreeing with the Ministry on the same. They are evaluated on the goals they have set themselves which forms the basis of Performance contracting.

2.2 Empirical Review

Mwangi (2015) argued that financial governance affects performance contracting. An example is the Local authorities and county governments in Kenya. The local authorities have been riddled with corruption and financial mismanagement. The county governments are also said to be suffering from misuse of public funds. In addition, counties are said to suffer financially due to cases of revenue theft and excessive expenditure. The implication is that, local authorities and the county governments cannot meet their performance contracting goals.

Bouckaert et al (2009) advocated for the creation of financial governance measures in an effort to improve performance contracting. This financial governance measures include; having a strong internal audit which is effective in carrying out its monitoring roles, financial budgeting which enhances the setting up of budgets, the analysis of budgets, the investigation of variances and follow up on negative variances. Other financial governance measures that can improve performance contracting results include; financial training for accounting staff and recruitment of competent and experienced financial accounting staff. This would aid performance contracting.

Muganda and Van Belle (2008) argued that Technologies of E-Government have gradually become one of the options to facilitate governance at the local levels. This study is significantly similar to the current study as it recognizes that the state of ICT is a factor inhibiting PCs 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 human resource management, financial management, governance and management and culture.

Mwangi *et al.* (2010) argued that a majority of local authorities in Kenya use information storage which is manual. The compares well with the current study since it recognizes the role of ICTs in facilitating service delivery of Local Authorities. However, the study has a research gap since it does not address other determinants of performance contracting such as financial management systems, human resource management and leadership. Another gap was that it never addressed ministries.

Lings (2004) put emphasis on the importance of human resource management when he found out that many researchers and employers abandon one important focus, the needs of internal employees, particularly those who get in touch with customers directly. The attitude and behavior of employees interrelating with customers would affect the feeling and behavior of the customers when they get the service. Hence, it is imperative that managers should define and manage the way their employees provide the service proficiently in order to ensure that their attitude and behavior are good for providing the service.

Paauwe (2009) on a study on HRM and performance; HRM can be referred to as a set of policies that are interrelated with an ideological and philosophical underpinning'. He also suggests four aspects that make up the meaningful version of HRM, A particular collection of beliefs and assumptions; A strategic driving force addressing decisions about people management; The central participation of line managers; and. dependence upon a set of 'levers' to outline the employment relationship.

2.3 Conceptual Framework

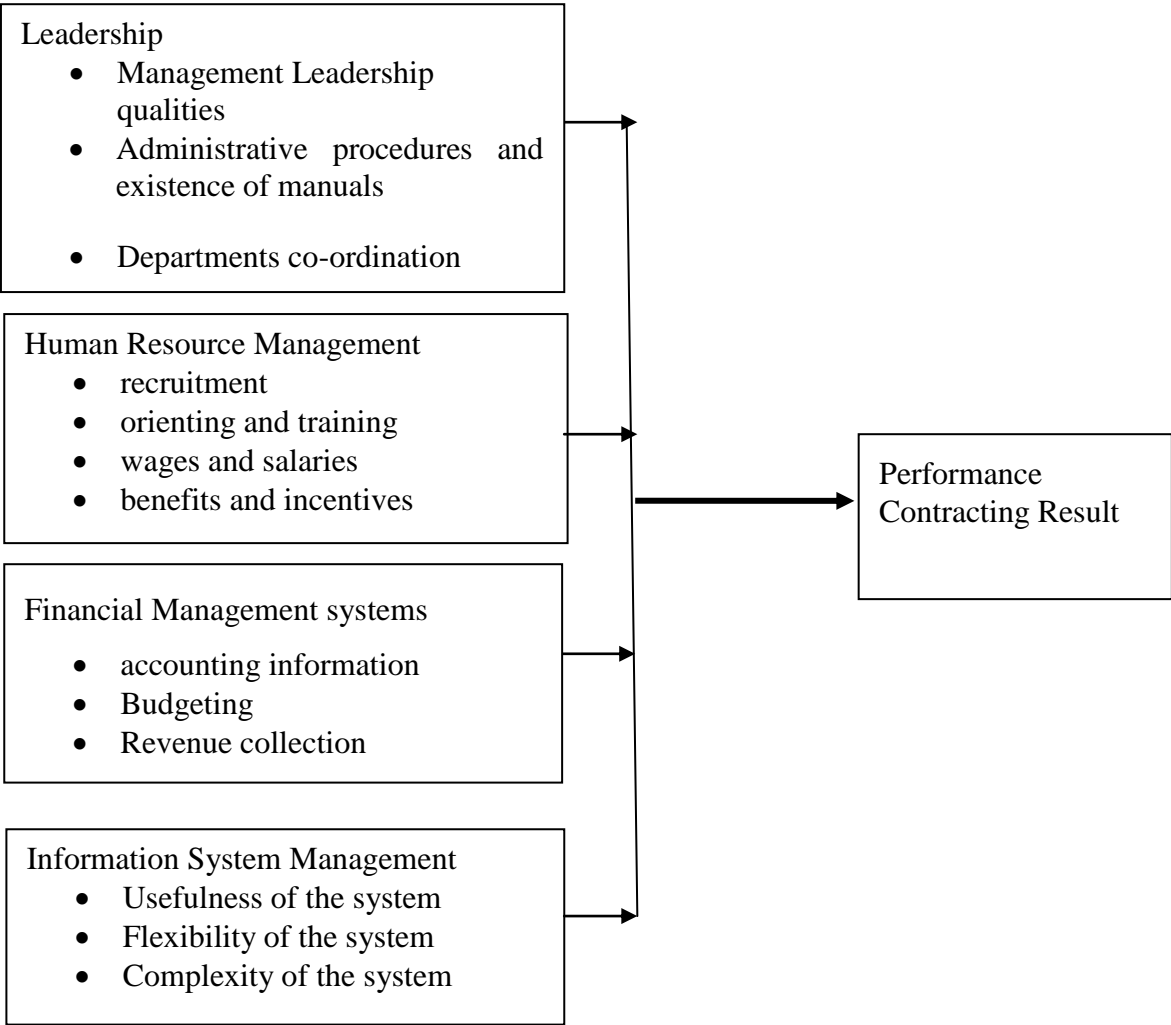


Figure 1: Conceptual Framework

3.0 RESEARCH METHODOLOGY

A descriptive research design was used in this study. The target population of the study composed of 120 Divisional heads, Middle level Managers and Supervisors in three ministries.

The study adopted stratified sampling. Stratified random sampling is a probability sampling technique in which the researcher divides the entire target population into different subgroups, or strata, and then randomly selects the final subjects proportionally from the different strata. The sample of 30% was used. The study used primary which was obtained by use of a questionnaire. The questionnaires were issued to the respondents through informal self-introduction and through email. Data reliability and validity was tested through a pilot test. Validity was improved by involving the supervisor and industry professionals on whether the questionnaire was gauging performance contracting results correctly. Descriptive and inferential statistics were the data analysis techniques used in this study. Multiple regressions was examined so as to establish whether the independent variables affected the performance which is the dependent variable.

The multivariate model that was used is as follows;

$$Y = \alpha_0 + \alpha_1 X_1 + \alpha_2 X_2 + \alpha_3 X_3 + \alpha_4 X_4 + \mu$$

Where; Y = Performance (surplus/deficit, performance contracting mean score and ranking in performance contract

X₁ = Leadership

X₂ = Human Resource Management

X₃ = Financial Governance and Management.

X₄ = Information System Management

4.0 RESULTS AND DISCUSSIONS

4.1 Response Rate

The number of questionnaires that were administered was 60. A total of 42 questionnaires were properly filled and returned. This represented an overall successful response rate of 70% as shown on Table 1.

Table 1: Response Rate

Response	Frequency	Percent
Returned	42	70%
Unreturned	18	30%
Total	60	100%

4.2 Demographic Information

4.2.1 Gender Composition of Respondents

The study sought after finding the gender distribution of respondents. Results on figure 2 shows that 57.14% of the respondents were males and 42.86% of the respondents were females. This shows that there was no gender disparity amongst the respondents implying that there exists gender equity in the government ministries.

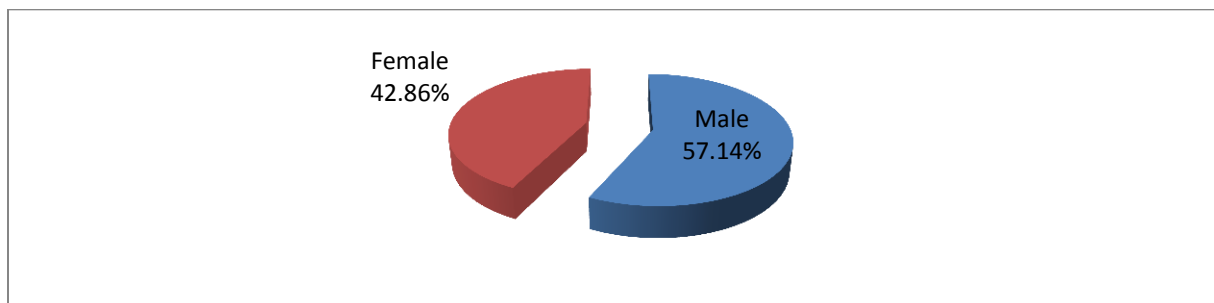


Figure 2: Gender

4.2.2 Level of Education

The study further sought after establishing the level of academic qualifications obtained by the respondents. The responses on this question are depicted in figure 3. A majority of 47.62% of the respondents reiterated that they had acquired post graduate education, 30.95% university level, 16.67% college level while only 4.76 % of them had education up to the secondary level. This implied that the respondents had attained high education.

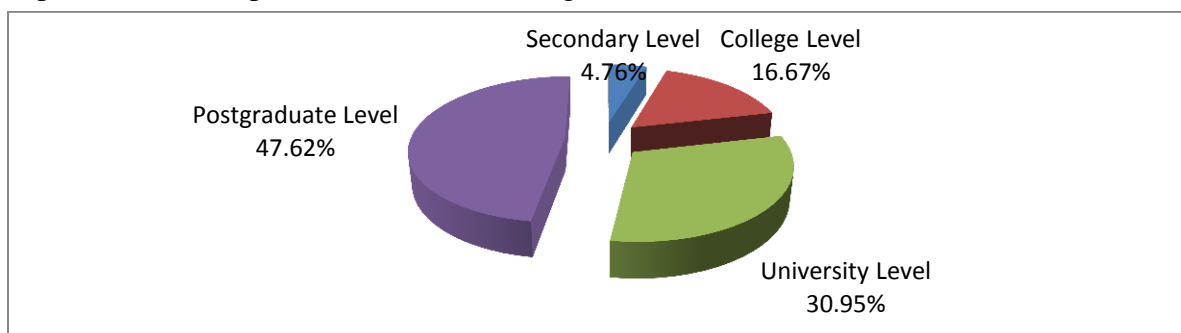


Figure 3: Education level

4.2.3 Years of Employment in One Capacity

The respondents were told to indicate the number of years they had worked in the same capacity in the government ministry. Majority 50% of the respondents indicated that they had worked in the same capacity for a period of between 5-9 years, 28.57 % of the respondents indicated they had worked in the same capacity for a period between 1-4 years, 16.67 % of the respondents indicated that they had worked in the same capacity for more than 10 years year while 4.76% of the residents indicated that they had they had worked in the same capacity for less than 1 year. This is an implication that, in the government ministries, it takes time before one is promoted to a higher position. It can also imply that the respondents had worked with the government ministries for a long period of time and therefore they were reliable for the study.

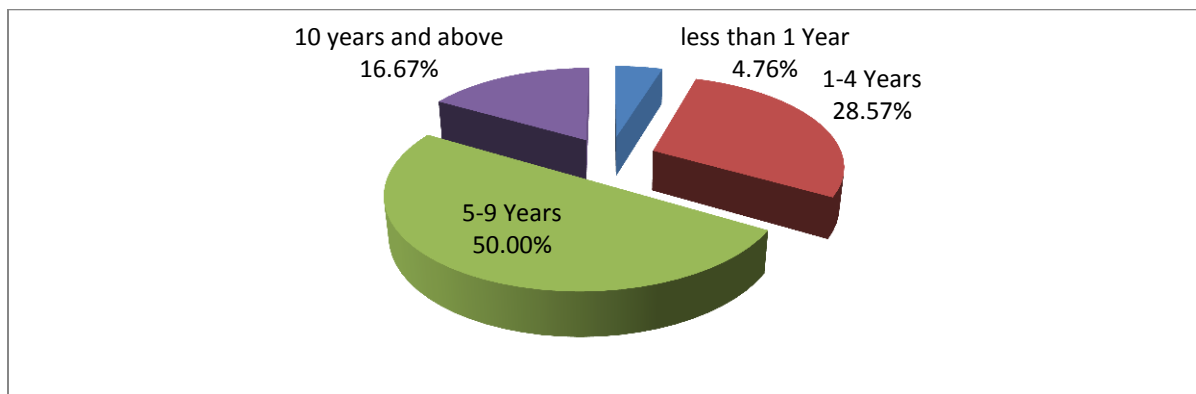


Figure 4: Years of Employment in the Same Capacity

4.2.4 Tools for Performance Contracting Implementation and Evaluation of Performance

The respondents were asked to designate whether their ministry had come up with any instruments and tools for evaluating performance and taking up performance contracts. Results in figure 5 show that a majority of the respondents (90.48) indicated that their ministry had tools for implementing performance contracts. All the respondents who agreed indicated that their ministries used a performance appraisal template as a tool for implementing performance contracting.

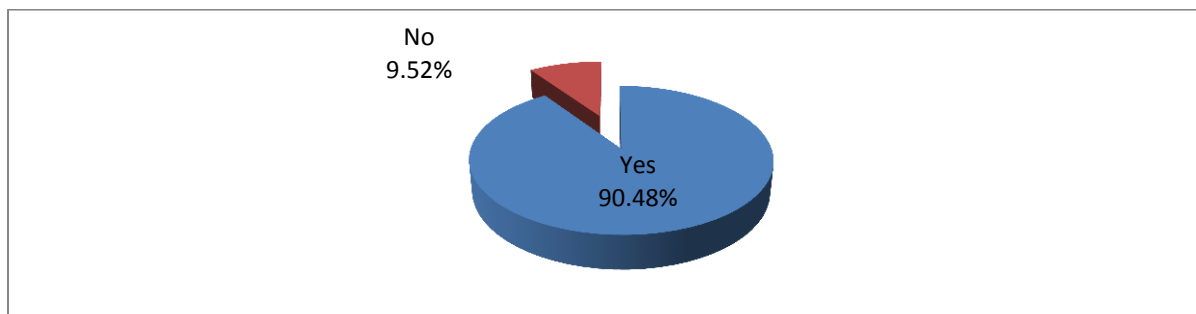


Figure 5: Tools for Implementing Performance Contracts

4.3 Descriptive Analysis

4.3.1 Leadership Influences on Performance Contracting

Table 2 presents the influence of leadership on performance contracting.

Table 2: Leadership Influences on Performance Contracting

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std Dev
Leadership qualities are visible in management	0.00%	0.00%	11.90%	57.10%	31.00%	4.2	0.6
Employees' views are taken into	0.00%	2.40%	26.20%	66.70%	4.80%	3.7	0.6

consideration in the management							
Administrative procedures and manuals exists	0.00%	2.40%	21.40%	66.70%	9.50%	3.8	0.6
Administrative procedures are adhered to	0.00%	4.90%	31.70%	34.10%	29.30%	3.9	0.9
There is proper co-ordination between the departments	0.00%	2.50%	20.00%	70.00%	7.50%	3.8	0.6
There is good guidance to the staff in executing their duties by supervisors	0.00%	0.00%	4.80%	66.70%	28.60%	4.2	0.5
Average						4.0	0.6

Results indicate that majority 88.1% of the respondents agreed that leadership qualities are visible in management, 71.5% of the respondents agreed that employees' views are taken into consideration in the management, 76.2% of the respondents agreed that administrative procedures and manuals exists, 63.4% of the respondents agreed that administrative procedures are adhered to, 77.5% of the respondents agreed that there is proper co-ordination between the departments and 95.3% of the respondents agreed that there is good guidance to the staff in executing their duties by supervisors. The mean of the responses indicated from the results was 4.0 which show that the respondents were agreeing on most of the statements while the standard deviation was 0.6 which indicates that the answers received were varied as they were dispersed far from the mean. Further, the respondents were asked to indicate the leadership style that is used in their ministry. The respondents indicated that their ministry used democratic, situational and socialist leadership styles. This implies that the government ministries have adopted diverse leadership styles.

4.3.2 Human Resource Management Influences on Performance Contracting

Table 3 presents the influence of human resource management on performance contracting.

Table 3: Human Resource Management Influences on Performance Contracting

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std Dev
Vacant positions are advertised for competitive selection of qualified candidates	0.00%	0.00%	4.80%	78.60%	16.70%	4.1	0.5
Employees are recruited on merit	0.00%	9.50%	28.60%	38.10%	23.80%	3.8	0.9

based on qualifications and work experience								
Training and development is based on capacity, needs and capacity objectives	0.00%	0.00%	23.80%	61.90%	14.30%	3.9	0.6	
Opportunities exist to integrate skills acquired in training into the work environment	0.00%	0.00%	33.30%	64.30%	2.40%	3.7	0.5	
Job appraisals practiced, are performance based and equitable	0.00%	0.00%	16.70%	57.10%	26.20%	4.1	0.7	
Upgrading/promotions are performance based and equitable	0.00%	4.80%	45.20%	28.60%	21.40%	3.7	0.9	
Average						3.9	0.7	

Results indicate that majority 95.3% of the respondents agreed that vacant positions are advertised for competitive selection of qualified candidates, 61.9% of the respondents agreed that employees are recruited on merit based on qualifications and work experience, 76.2% of the respondents agreed that training and development is based on capacity, needs and capacity objectives, 66.7% of the respondents agreed that opportunities exist to integrate skills acquired in training into the work environment, 83.3% of the respondents agreed that job appraisals practiced, are performance based and equitable and 50% of the respondents agreed that upgrading/promotions are performance based and equitable. The mean of the responses indicated from the results was 3.9 which show that the respondents were agreeing on most of the statements while the standard deviation was 0.7 which indicates that the answers received were varied as they were dispersed far from the mean.

4.3.3 Financial Governance Management on the Performance Contracting

Table 4 presents the influence of finance management on performance contracting.

Table 4: Finance Management Influences on Performance Contracting

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std Dev
Financial procedures and reporting systems are in place	0.00%	0.00%	7.10%	76.20%	16.70%	4.1	0.5
Stakeholders reports	0.00%	2.40%	35.70%	26.20%	35.70%	4.0	0.9

are generated from information accounts								
Budgeting process is integrated into annual implementation plan	0.00%	0.00%	17.10%	63.40%	19.50%	4.0	0.6	
Revenue collection and usage is free from political interference	0.00%	14.30%	26.20%	38.10%	21.40%	3.7	1.0	
Revenue collection system is streamlined and well mobilized	0.00%	4.80%	47.60%	42.90%	4.80%	3.5	0.7	
There is an elaborate and effective internal control framework for detection and prevention of frauds	0.00%	11.90%	23.80%	47.60%	16.70%	3.7	0.9	
Average						3.8	0.8	

Results indicate that majority 92.9% of the respondents agreed that financial procedures and reporting systems are in place, 61.9% of the respondents agreed that latest accounting information systems are used for generating reports for stakeholders, 82.9% of the respondents agreed that budgeting process is integrated into annual implementation plan, 59.5% of the respondents agreed that revenue collection and usage is free from political interference, 47.7% of the respondents agreed that revenue collection system is streamlined and well mobilized and 64.3% of the respondents agreed that there is an elaborate and effective internal control framework for detection and prevention of frauds. The mean of the responses indicated from the results was 3.8 which show that the respondents were agreeing on most of the statements while the standard deviation was 0.8 which indicates that the answers received were varied as they were dispersed far from the mean.

4.3.4 Information System Management Influences on Performance Contracting

Table 5 presents the influence of information management on performance contracting.

Table 5: Information System Management Influences on Performance Contracting

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std Dev
Trained personnel on IFMIS are in place to manage information	0.00%	0.00%	21.40%	54.80%	23.80%	4.0	0.7

systems								
Information Systems are used to process, disseminate and ensure feedback of information from various sources	0.00%	0.00%	17.50%	72.50%	10.00%	3.9	0.5	
The Human Resource Information System (HRIS) is in place	0.00%	2.40%	9.50%	52.40%	35.70%	4.2	0.7	
Financial Reports generated through IFMIS are more accurate and timely	0.00%	0.00%	35.70%	57.10%	7.10%	3.7	0.6	
There are enough modern computers in the ministry	2.40%	14.30%	31.00%	33.30%	19.00%	3.5	1.0	
The ministry is able to produce management reports in time for decision making	0.00%	0.00%	9.50%	66.70%	23.80%	4.1	0.6	
Average						3.9	0.7	

Results indicate that majority 78.6% of the respondents agreed that trained personnel on IFMIS are in place to manage information systems, 82.5% of the respondents agreed that information Systems are used to process, disseminate and ensure feedback of information from various sources, 88.1% of the respondents agreed that financial Reports generated through IFMIS are more accurate and timely, 52.3% of the respondents agreed that there are enough modern computers in the ministry and 90.5% of the respondents agreed that the ministry is able to produce management reports in time for decision making. The mean of the responses indicated from the results was 3.9 which show that the respondents were agreeing on most of the statements while the standard deviation was 0.7 which indicates that the answers received were varied as they were dispersed far from the mean.

4.4 Inferential Data Analysis

4.4.1 Regression Analysis

The regression equation took the following form

$$Y = \alpha_0 + \alpha_1 X_1 + \alpha_2 X_2 + \alpha_3 X_3 + \alpha_4 X_4 + \mu$$

Where; Y = Performance (surplus/deficit, performance contracting mean score and ranking in performance contract

X₁ = Leadership

X₂ = Human Resource Management

X₃ = Financial Governance and Management.

X₄ = Information System Management

Table 6 shows the fitness of the model identified above in establishing the determinants of performance contracting results in Government Ministries in Kenya. The R square was 63.1%. This implies that the overall effect of the predictor variables (leadership, human resource management, finance management, information system management) explains 63.1% performance contracting.

Table 6: Model of Fitness

Indicator	Coefficient
R	0.794
R Square	0.631
Adjusted R Square	0.591

The results on analysis of variance in Table 7 indicate that the overall model was significant.

Table 7: Analysis of Variance (ANOVA)

Indicator	Sum of Squares	df	Mean Square	F	Sig.
Regression	7.767	4	1.942	15.824	0.000
Residual	4.54	37	0.123		
Total	12.308	41			

This shows that the combined influence of leadership, human resource management, finance management and information system management were statistically significant in explaining performance contracting. This was illustrated by a p value of 0.000 which is less than the acceptance critical value of 0.05.

The results in Table 8 present the regression of coefficients of the study. These results show that there is a positive relationship between performance contracting and leadership, human resource management, finance management, information system management as supported by beta coefficients of 0.107, 0.788, 0.050 and 0.225 respectively. This means an increase in either of the variables will positively increase performance contracting. The analysis also yields results that show all variables used in the study to be statistically significant as the probability (p) values were 0.002, 0.000, 0.001 and 0.002 respectively which were lower than the conventional value of 0.05.

Table 8: Regression of Coefficients

Variable	B	Std. Error	t	Sig.
(Constant)	0.170	0.072	2.350	0.001
Leadership	0.107	0.053	2.020	0.002
Human resource management	0.788	0.198	3.973	0.000
Financial Management	0.050	0.016	3.210	0.001

Information system management	0.225	0.114	1.970	0.002
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5.0 DISCUSSION CONCLUSIONS AND RECOMMENDATIONS

5.1 Findings

In reference to the first objective of the study which sought to establish how leadership influences the performance contracting results of government ministries in Kenya. The study findings indicated that leadership influences impacted the performance contracting results of government ministries. This was demonstrated by descriptive statistics that showed that majority of the respondents agreed that; leadership qualities are visible in management, employees' views are taken into consideration in the management, administrative procedures and manuals exists, administrative procedures are adhered to, there is proper co-ordination between the departments and there is good guidance to the staff in executing their duties by supervisors. Regression results revealed that there was a significantly positive relationship between leadership influences and performance contracting. This was supported by a p value of 0.002.

The second objective of the study was to establish how human resource management influences the performance contracting results of government ministries in Kenya. The study findings indicated human resource management influences had effect on the performance contracting results of government ministries in Kenya. This was demonstrated by descriptive statistics that showed that majority of the respondents agreed that; 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, opportunities exist to integrate skills acquired in training into the work environment, job appraisals practiced, are performance based and equitable and upgrading/promotions are performance based and equitable. Regression results indicated that there was a significantly positive relationship between information management influences and performance contracting. This was supported by a p value of 0.000.

The third objective of the study was to establish how financial governance management influences the performance contracting results of government ministries in Kenya. The study findings indicated financial governance management influences had effect on the performance contracting results of government ministries in Kenya. This was demonstrated by descriptive statistics that showed that majority of the respondents agreed that; financial procedures and reporting systems are in place, latest accounting information systems are used for generating reports for stakeholders, budgeting process is integrated into annual implementation plan, revenue collection and usage is free from political interference, revenue collection system is streamlined and well mobilized and there is an elaborate and effective internal control framework for detection and prevention of frauds. Regression results indicated that there was a significantly positive relationship between financial governance management influences and performance contracting. This was supported by a p value of 0.001.

The fourth objective of the study was to establish how information system management influences the performance contracting results of government ministries in Kenya. The study findings indicated that information system management influences had effect on the performance contracting results of government ministries in Kenya.

5.2 Conclusions

The study concluded that leadership influences affected the performance contracting results of Government Ministries in Kenya positively. This implies that an improvement in the leadership practices in the government ministries would mean better results of performance contracting.

The study concluded that human resource management influences affected the performance contracting results of Government Ministries in Kenya positively. This implies that an improvement in the human resource management practices in the government ministries would mean better results of performance contracting.

The study concluded that financial governance management influences affected the performance contracting results of Government Ministries in Kenya positively. This implies that an improvement in the financial governance management in the government ministries would mean better results of performance contracting.

The study concluded that information system management influences affected the performance contracting results of Government Ministries in Kenya positively. This implies that an improvement in the information system management in the government ministries would mean better results of performance contracting.

5.3 Recommendations

Based on the finding the study recommends that the government should encourage the implementation of performance contracting in its ministries. This can be done through improving the leadership practices, human resource management practices, finance governance practices and information system management practices.

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