

**PERFORMANCE CONTRACTING IMPLEMENTATION AND EMPLOYEES'
PERFORMANCE IN EMBU WATER & SANITATION COMPANY LIMITED
EMBU COUNTY, KENYA**

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UNIVERSITY**

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Declaration

I, the undersigned, declare that this research proposal is my original work and that it has not been presented in any other university or institution for academic credit.

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D53/EMB/PT/24225/2011

Signed..... Date

This research proposal has been submitted for examination with my approval as university supervisor.

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For and on behalf of Kenyatta university

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Chairman, Department of Business Administration

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Dedication

I dedicate this research proposal to my husband Stephen as a mode of thanks for his moral and financial support, patience, understanding and encouragement throughout the course.

Acknowledgement

My sincere gratitude goes to my husband Stephen for the support and encouragement during my course.

My special thanks go to the entire management of Embu Water and Sanitation Company Limited for the financial support and provision of an enabling environment during my course.

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MAY GOD BLESS THEM ABUNDANTLY

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List of abbreviations

AAPAM	African Association for Public Administration and Management
DPMD	Development Policy Management Division
GOK	Government of Kenya
MOU	Memorandum of Understanding
OECD	Organization of Economic Cooperation and Development
PC	Performance Contract
PDP	Personal Development Plan
SPSS	Statistical Package for Social Scientists
SWOT	Strength Weakness Opportunity and Threat

Definition of Operational Terms

Contract - binding agreement between two or more parties for performing, or refraining from performing some specified act(s) in exchange for lawful consideration (Lane, 1987)

Leadership - The ability of the top level management within the organization to provide the strategic direction required to implement the performance contract effectively.

Performance appraisal - feedback system that involves the direct evaluation of individual performance by a supervisor, manager or peers (Cummings and Worley, 2005).

Performance Contract - is a management tool for measuring performance against negotiated performance targets. It is a freely negotiated performance agreement between the Government, acting as the owner of a public agency, and the management of the agency (Muthaura, 2003).

Performance management - an integrated process of defining, assessing and reinforcing employee work behaviour and outcomes (Aosa, 2000).

Stakeholders - Those persons and entities that have an interest in the strategy of an entity. Stakeholders normally include shareholders, customers, staff and the local community (Ghosh *et al.* 2001).

Strategy - This is the determination of the basic goals and objectives of a firm and the adoption of courses of action including the allocation of resources necessary for carrying out these goals. Andrews (1987) argues that strategy is a rational decision-

making process by which the firm's resources are matched with opportunities arising from the competitive environment.

Structure - the means by which the organization seeks to achieve its strategic objective and implement strategies and strategic change (Thompson, 1997).

Abstract

The use of performance contracts has been acclaimed as an effective and promising means of improving the performance of public enterprises as well as government departments. The public sector in Kenya is faced with the challenge of poor and declining performance, which inhibits realization of sustainable economic growth. The Public sector had consistently fallen below expectations. A review of literature shows that several studies on performance contract have been carried out. Kobia & Mohammed (2006) conducted a survey on performance contracting in Kenya and found out that a majority of the respondents were conversant with performance contracting. However 44 % indicated that they did not have an individual work plan, 79.6 % of the respondents had not received any training on performance contract while 26.4 % admitted that their ministries had not signed the 2006/7 performance contracts with the government (Kobia & Mohammed, 2006). This study intends to investigate in details the effects of performance contracting implementation on employees' performance in Embu Water and Sanitation Company Ltd Embu County, Kenya.

Descriptive survey will be used in this study to collect information. The population of the study will involve 100 management staff in Embu Water and Sanitation Company Limited. A sample population of 79 will be used in this study. Stratified proportionate random sampling technique will be used to select the sample. Both the primary and secondary sources of data will be used to obtain information for the study. Primary data will be obtained through administering a structured questionnaire which comprises of open-ended and closed questions. The questionnaire will be subjected to a pilot test to ensure content reliability and validity. Quantitative data collected will be analyzed by the use of descriptive statistics using SPSS (Version 20) and presented through percentages, means, standard deviations and frequencies. The information will be displayed by use of bar charts, graphs and pie charts and in prose-form.

CHAPTER ONE : INTRODUCTION

1.1 Background to the Study

Performance contracts or agreements specify standards of performance or quantifiable targets which a government requires public officials or the management of public agencies or ministries to meet over a stated period of time (DPMD, 2003). As part of the performance orientation in government, the common purposes of performance contracting are to clarify the objectives of service organizations and their relationship with government, and to facilitate performance evaluation based on results instead of conformity with bureaucratic rules and regulations (DPMD, 2003). The setting of specific performance targets, in a format that can be monitored, aims at providing a basis for evaluating performance and improving accountability in the public enterprise sector (DPMD, 2003). This illustrates the shift in emphasis from the input and procedure-oriented controls of the past to the new paradigm of output or results-oriented controls.

Performance Contracting is a branch of management science referred to as Management Control Systems and is a contractual agreement to execute a service according to agreed-upon terms, within an established time period, and with a stipulated use of resources and performance standards. Performance contracting is one element of broader public sector reforms aimed at improving efficiency and effectiveness, while reducing total costs (Domberger, 1998). A performance contract constitutes a range of management instruments used to define responsibilities and expectations between parties to achieve mutually agreed results. It is a useful tool for articulating clearer definitions of objectives and supporting innovative management, monitoring and control methods and at the same time imparting managerial and operational autonomy to public service managers. It is therefore a

management tool for ensuring accountability for results by public officials, because it measures the extent to which they achieve targeted results (Greer *et al.*, 1999).

In Kenya the concept of performance contract came into the limelight in the 1990s when the government through a cabinet memo approved the introduction of performance contracting in the management of public agencies. During this time some public enterprises like Kenya Railways, National Cereals and Produce Board, Mumias Sugar Company and the defunct Kenya Posts and Telecommunication Corporation tried to introduce different versions of performance Contracts which were however not implemented.

In 2003, the Government made a commitment to introduce performance contracting as a management tool to ensure accountability in the management of public resources. This policy commitment was contained in Economic Recovery Strategy for Wealth and Employment Creation 2003-2007. In January 2004 the Government through a Cabinet Memo resolved to put all Permanent Secretaries, Accounting Officers and Chief Executive Officers of state corporations on performance contract by June 2004. Since then we have seen a positive change to the delivery of service to the taxpayer. However, there have been challenges in implementing performance contracting in the public sector. Kobia and Mohammed (2006) recommended for further research on the need to explore to gain insights into factors that enhance or inhibit the implementation of performance contracting in Kenya as a way of further understanding the implementation of the concept in Kenya.

1.1.1 Concept of Performance Contracts

Kumar (1994) defines performance contract as a Memorandum of Understanding (MOU). MOU is rooted in an evaluation system, which not only looks at performance

comprehensively but also ensures improvement of performance managements and industries by making the autonomy and accountability aspect clearer and more transparent.

OECD (1999) defines performance contract as a range of management instruments used to define responsibility and expectations between parties to achieve mutually agreed results. While Smith (1999) argues that a common definition of performance contracting can be found, there are a considerable variety of uses and forms for quasi-contractual arrangements. The objective of performance contracting is the control and enhancement of employees' performance and thus the performance of the whole institution.

The use of Performance Contracts has been acclaimed as an effective and promising means of improving the performance of public enterprises as well as government departments. Essentially, a Performance Contract is 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 (Hunter and Gates, 1998). They include a variety of incentive-based mechanisms for controlling public agencies—controlling the outcome rather than the process. The success of Performance Contracts in such diverse countries as France, Pakistan, South Korea, Malaysia, India, and Kenya has sparked a great deal of interest in this policy around the world (Wheeler, 2001).

1.1.2 Implementation of Performance Contracts

The public sector in Kenya is faced with the challenge of poor and declining performance, which inhibits realization of sustainable economic growth. The Public sector had consistently fallen below expectations due to: excessive regulations and controls; frequent political interference; poor leadership and management; outright mismanagement (Kenya Railways,

Kenya Meat Commission); bloated staff establishments; multiplicity of principals and non-performing employees. In addition to regressing economic growth, the decline in Public Service has resulted to poor performance, poor service delivery, degeneration of infrastructure and severe brain drain. The initiatives to adopt Performance Contracts in public institutions have been driven by the changes in political environment in terms of securing better value for money in public services, encouraging greater openness and accountability, and for service improvements in dealing with the general public as consumers (Brown, 1996).

Smith (1990) observed that the use of performance indicators in the public sector is more complex than in the private sector where there is a superficially much less complex model of accountability, in which investors are the principals, management the agents. In the public sector, comparative data are just one of the few means whereby citizens might appraise the quality of local services both as tax-payer and as consumer (Smith, 1990). As a result, the problem of reporting the activity of a public sector enterprise is vastly larger than that of reporting in the private sector (Smith, 1990). (Fisher, Maines, Peffer & Sprinkle, 2002) point out that tying performance management to the budget, as is done in many governments, makes subordinates have incentives to overstate their productivity in order to acquire a greater share of resources in the name of working towards targets.

1.2 Statement of the Problem

The primary development goal for any country is to achieve broad-based, sustainable improvement in the standards of the quality of life for its citizens. The Public service and in particular the civil service plays an indispensable role in the effective delivery of public services that are key to the functioning of a state economy. When the delivery of services is

constrained or becomes ineffective, it affects the quality of life of the people and nation's development process (AAPAM, 2005).

Despite achievements attributed to Performance Contracts (like better evaluation of performance, improved service delivery, adoption of competitive strategy in the delivery of public service, among others) (Muthaura, 2003), there is resistance making the program perform poorly (Obong'o, 2009). While the PC guidelines are well spelt out, there appear to be challenges as depicted by a SWOT analysis reported in "Evaluation of Performance Contracting: Final Report" of March 2010. The following were reported as threats to performance contracting: institutional culture of managing without any set targets, lack of transparency, resources which are assumed to be available in good time are actually not; loss of faith by the public on the system especially when it continually does not respond to public expectations; the ranking process has been questioned on the basis of the validity and its usefulness in performance evaluation and also whether it truly reflects the relative performance of ministries (GOK, 2010).

A review of literature shows that several studies on performance contract have been carried out. Kobia & Mohammed (2006) conducted a survey on performance contracting in Kenya and found out that a majority of the respondents were conversant with performance contracting. However 44 % indicated that they did not have an individual work plan, 79.6 % of the respondents had not received any training on performance contract while 26.4 % admitted that their ministries had not signed the 2006/7 performance contracts with the government (Kobia & Mohammed, 2006). A study carried out in the five largest urban centres in Kenya by the World Bank in 2008 found that they performed poorly in many respects. Each of these studies has focused on a specific aspect of PC in organizations but none of them

specifically could be pointed out to have addressed the challenges on PC design and implementation.

Previous studies conducted on performance contracting have concentrated on challenges of implementation (Opiyo 2006 and Langat, 2006) while one study has tackled the general impact of performance contracting in state corporations (Korir, 2006). However, no known study has been done in Kenya on effects of performance contracting implementation on employees' performance. A knowledge gap therefore exists regarding the effects of performance contracting implementation on employees' performance in Embu Water and Sanitation Company Ltd. This study intends to investigate in details the effects of performance contracting implementation on employees' performance in Embu Water and Sanitation Company Ltd Embu County, Kenya.

1.3 Objectives of the study

1.3.1 General Objective

The general objective of the study is to investigate the influence of performance contracting implementation on employees' performance in Embu Water and Sanitation Company Limited, Embu County, Kenya.

1.3.2 Specific objectives

The study will be guided by the following specific objectives

- i. To assess the influence of performance appraisal system on employees' performance in Embu Water and Sanitation Company Limited
- ii. To establish the effect of stakeholders involvement on employees' performance in Embu Water and Sanitation Company Limited

- iii. To determine the effect of staff training on employees' performance in Embu Water and Sanitation Company Limited
- iv. To establish the effect of organization structure on employees' performance in Embu Water and Sanitation Company Limited

1.4 Research Questions

The research questions are based on the problem statement and the stated objectives.

- i. How does performance appraisal system influence employees' performance in Embu Water and Sanitation Company Limited?
- ii. What are the effect of stakeholder's involvement on employees' performance in Embu Water and Sanitation Company Limited?
- iii. What are the effects of staff training on employees' performance in Embu Water and Sanitation Company Limited?
- iv. To what extent does organization structure affect employees' performance in Embu Water and Sanitation Company Limited?

1.5 Significance of the Study

The study will be useful to Embu Water and Sanitation Company Limited and individuals to the existing competition in terms of improved service delivery, cost reduction and boosting the morale of the employees. This study will be of great importance to the devolved government as it will provide information valuable in assessment of effectiveness of performance contract polices introduced by the government to its public service sector. The results of the study may yield insight into the importance and effectiveness of service delivery

approaches and the relative importance of the stakeholder participation and involvement in performance contracting formulation and implementation.

The research findings will provide crucial literature for reference by other researchers seeking to carry out further research in the same field or any other related field. Future scholars and researchers would find it important as the study would enable them to know that quality service delivery activities can be beneficial to performance contracting in that there is broader acceptance and support for implementation and also it would enable increase the body of knowledge in this area.

1.6 Scope of the Study

The study will seek to determine the influence of performance contracting implementation on employees' performance in Embu Water and Sanitation Company Limited. The study will target 100 employees of Embu Water and Sanitation Company Limited.

1.7 Assumptions of the Study

The researcher makes the assumption that the respondents will be cooperative enough to give true information for the study. The researcher also assumes that external factors like strikes will not arise as this would affect the process of data collection and hence the completion of the project. The researcher assumes that he will get the resources intended to facilitate data collection, and that the information collected will be a representation of the whole sector for inference.

CHAPTER TWO :LITERATURE REVIEW

2.1 Introduction

This chapter summarizes the information from other researchers who have carried out their research in the same field of study. The specific areas covered here are theoretical review, empirical review, conceptualization and operationalization.

2.2 Theoretical Review

2.2.1 Stakeholder Theory

The stakeholder theory is a theory of organizational management and business ethics that addresses morals and values in managing an organization (Phillips and Freeman, 2003). The stakeholder view of strategy is an instrumental theory of the corporation, integrating both the resource-based view as well as the market-based view, and adding a socio-political level. This view of the firm is used to define the specific stakeholders of a corporation (the normative theory of stakeholder identification) as well as examine the conditions under which these parties should be treated as stakeholders.

Donaldson and Preston (1995) argue that the normative base of the theory, including the "identification of moral or philosophical guidelines for the operation and management of the corporation", is the core of the theory. Mitchell, *et al.* (1997) derive a typology of stakeholders based on the attributes of power (the extent a party has means to impose its will in a relationship), legitimacy (socially accepted and expected structures or behaviors), and urgency (time sensitivity or criticality of the stakeholder's claims). By examining the combination of these attributes in a binary manner, 8 types of stakeholders are derived along

with their implications for the organization. Friedman and Miles (2002) explore the implications of contentious relationships between stakeholders and organizations by introducing compatible/incompatible interests and necessary/contingent connections as additional attributes with which to examine the configuration of these relationships.

The political philosopher Charles Blattberg has criticized stakeholder theory for assuming that the interests of the various stakeholders can be, at best, compromised or balanced against each other. Blattberg (2004) argues that this is a product of its emphasis on negotiation as the chief mode of dialogue for dealing with conflicts between stakeholder interests. He recommends conversation instead and this leads him to defend what he calls a 'patriotic' conception of the corporation as an alternative to that associated with stakeholder theory.

2.2.2 Social Contract Theory

According to social contract theory, consent is the basis of government. It is because people have agreed to be ruled that governments are entitled to rule. Social contract theorists envisage a transition from a state of nature to a state of government. Individuals come together and form contracts which serve their interests, and these contracts establish rule. Social contract theory has recently been restored to the fore of political philosophy by John Rawls, whose version of the state of nature is the original position (Halbrook, 1994).

The idea of the social contract is one of the foundations of the American political system. This is the belief that the state only exists to serve the will of the people, and they are the source of all political power enjoyed by the state. They can choose to give or withhold this power.

The origin of the term social contract can be found in the writings of Plato. However, English philosopher Thomas Hobbes expanded on the idea when he wrote *Leviathan* in response to

the English Civil War. In this book he wrote that in the earliest days there was no government. Instead, those who were the strongest could take control and use their power at any time over others. Hobbes' theory was that the people mutually agreed to create a state, only giving it enough power to provide protection of their well-being. However, in Lorsch (2002) theory, once the power was given to the state, the people then relinquished any right to that power. In effect, that would be the price of the protection they sought.

Thus the will of the people as a whole gives power and direction to the state. Domberger (1998) also based his political writings on the idea of the social contract. He stressed the role of the individual. He also believed that revolution was not just a right but an obligation if the state abused their given power.

2.2.3 Agency Theory

Almost by name this theory seems to explain the agencification movement. Hence it is not surprising that it is one of the most often used explanatory models. The theory starts with a situation where we have a principal giving orders and an agent taking these orders. However the principal has specific interests (when giving these orders) as well as the agent has specific interests (when taking these orders) and those interests must not be convergent. Further, because of specialization the agent has some information advantage about the used processes, the achieved results and the important circumstances of its tasks. The problem now is that the agent, as a utility maximizing actor, might use that advantage to pursue his own interests (Lane, 2005).

Now, by creating an agency and basically reducing input control and implementing a contract based result control, it is assumed that the problem with different interests and goals can be

solved. On one hand the agent is now obliged to fulfill the contract and should produce exactly what the principal desired. On the other hand the principal can no longer prescribe on how the agent has to execute its tasks. This could have a positive effect on the performance of the agency, as the agent can decide by himself on the optimal mix of inputs to produce the requested results (Verhoest, 2005). According to that the agency should be as independent as possible from the core government to perform best, but the department or ministry must be powerful enough to enforce the agency to produce the desired output.

The public sector is faced with a lot of challenges that the agency theory does not address. The public sector organizations generally have multiple stakeholders (principals) with multiple goals (Verbeeten, 2007). The different stakeholders may therefore offer opposing incentives with the resultant being poor service delivery that will not benefit any of the principals. The linkage of incentives to performance may lead to gaming. The information gap between the agent and the principals accords the agent an advantage over the principal. To ensure maximum return for little effort the agent may use the information for their own good and detriment to the principal. This is a case of information asymmetry.

There are different aspects of performance that are hard to measure while on the other hand they have the greatest impact on the performance. Therefore what will be included in the performance contract of the organization are only the measurable aspects. This is a challenge that the Agency theory does not address. The theory takes into account extrinsic motivation of the agent and ignores the intrinsic motivation. The match of the employee's intrinsic motivation and the public sector organization goals will reduce the burden on the government to motivate the staff (Verbeten, 2007). This is because the employees will be motivated to do

what they do. This is against the theory proposition that an agent gets utility solely from the incentives and disutility from the effort he exerts on behalf of the principal.

As a lesson from this perspective, it has to be noted that agencies only can contribute to the state as a whole, when they are well integrated into the administrative structure. This doesn't mean that autonomy should be refused completely – in fact there is always leeway for variation within formal structures – but the autonomy arrangement must be in line with the main goals of the state.

2.3 Empirical Review

2.3.1 Performance Appraisal System

Performance appraisal is a principal activity and managers are responsible for achieving positive results. To appraise a subordinate and his performance is part of a manager's job. Indeed unless he does the appraising himself he cannot adequately discharge his responsibilities for assisting and training his subordinates (Lorsch, 2002). This activity can be coupled with training and development within the organization to ensure that there is evident improvement and progress in the working procedures that is reflected in the kind of service being offered to the customers.

Performance appraisal is feedback system that involves the direct evaluation of individual performance by a supervisor, manager or peers. Most organisations have some kind of evaluation that is used for performance feedback, pay administration and in some cases counseling and developing employees. Thus performance appraisal represents an important link between goal setting and process and reward system. Managers should do three things well in the process of performance management. These are to define performance through

goal setting, measures and assessment; facilitate performance by identifying obstacles to good performance and providing resources to accomplish objectives and encourage performance by providing a sufficient number of rewards that people care about and doing so in a timely and fair manner (Connolly and Hyndman, 2010).

According to Certo and Paul (2001) any systematic approach to performance appraisal will commence with the completion of an appropriate appraisal form. This preparatory stage will be followed by an interview, in which the manager discusses progress with the member of staff. The result of the interview is in the form of agreed action, either by the staff alone or jointly with his manager. The action generally materialises in the shape of a job improvement plan, promotion to another job or salary increment.

According to an adoption from Kenya Institute of Administration (1999), systematic training approach is a term covering different stages and processes. They are all complementary in that while working on one stage you may find that changes become pertinent elsewhere. This involves having to develop an orderly schedule or plan which will take into account every detail that is essential. The four main stages are identifying training need, planning and designing the training programme, training implementation and assessment of the results (Kobia, 2006).

One of the main reasons for poor performance, low management morale and lack of management accountability in local authorities is the tendency of politicians requiring major decisions to be made outside the councils. Performance contract should include clear statements of the powers and authority of the council management to make decisions, and any limits or exceptions to this authority. In implementing performance contracting, it is necessary

to have an inter-agency coordinating committee to ensure that all outstanding issues outside the control of a council are resolved and that the demands on the public enterprises are properly coordinated. Enterprises should have a specific ministry/agency to which they report to in order to avoid conflict that can arise with several “masters” to serve (Trivedi, 2000).

Performance contracting took place before the finalization and approval of rewards and sanctions system. The winners expect to be rewarded, over and above the normal pay and not just the high performers who expect to be rewarded; the public also expected the poor performers to be punished. When this does not happen, it may demoralize the high performers but also cast aspersions on the rationale and motivation for the whole exercise.

The performance contracts should be developed with the internal systems in mind. The anticipated changes of the systems in place should be incorporated in the performance contract. Training should be provided to key people or the change agents in the corporation before and during implementation process.

The structures in place also need to be reviewed to enhance the implementation of reforms. Langat (2006) suggested development of horizontal liaisons with cross-cutting coordinating policy and delivery units with clear targets, pooled budgets and horizontal ministerial portfolios.

Within the government and also the corporations a reward system need to be put in place. A performance with reward motivates the implementers of the contracts. Verbeeten (2007) noted that the use of incentives appears associated with an increase in quantity performance yet a decrease in quality performance.

The reporting systems need also to be improved to enhance accountability and transparency. According to Lienert (2003), to increase transparency, performance measurements requires improved external reporting systems and must avoid overloading Kenyans with so many indicators most of which may be difficult to comprehend.

2.3.2 Stakeholder's Involvement

Stakeholders are a group or individual who can affect or is affected by the achievement of the organizations objectives (Choke, 2006). The corporations do not operate in isolation but they interact with other players in implementation of the performance contracts. They need to identify the needs of the stakeholders and design appropriate strategies to address these needs. Their involvement in formulation of the strategies in the strategic plans will provide invaluable support during the implementation of the activities. The critical role of stakeholders is illustrated in Kobia and Mohammed (2006), "Ghana has transformed the structure and strategy of its rural water supply sector. This reform process started with an extended dialogue with the major stakeholders in the sector, out of which a new rural water and sanitation policy was developed".

The performance contract formulation process should be consultative. This will create ownership and enable the setting of targets that are realistic by the implementing agency. In Swaziland the uses of consultants to develop the contracts lead to their failure. According to Kobia and Mohammed (2006) the performance agreement of the early 1990's failed to achieve its stated objective because of widespread use of consultants in the formulation of contract plans, including the determination of mechanisms for their monitoring and evaluation; Public enterprise management did not develop the necessary sense of ownership

and commitment to the success of the enterprise contracts. This can be attributed to the fact that while the consultants may be knowledgeable about certain issues and areas that are generic to their field of specialization, they often lack an intimate knowledge of the unique socio-political and economic circumstances confronting individual countries, especially those of the third world.

Different corporations have different mandates as per the laws establishing them. Therefore the entire corporation's performance cannot be measured using the same targets. This can only be incorporated during the formulation process with their involvement. The same argument holds true in regard to local authorities. For effective implementation of PC, the public service must be competent, well focused and effective. To achieve this, the public service should be adequately trained. There should also be continuous capacity building, research and development to ensure improvement and sustainability of PC process.

According to Kobia and Mohammed (2006), all the stakeholders should be involved in the various stages of the PC process. This includes consultation in the design stage, representation of the private sector during workshops and formulation of contracts. Some of them have been involved in the implementation of PC through evaluation and improvement of tools evaluation. They believe that the public is not adequately involved in the process and this can be enhanced by development of a chapter for the inclusion in civic education and a course on PC in institutions of higher learning. It can also be done through public administration and barazas and an arrangement where the private sector plays a key role through Public-Private Partnership.

2.3.3 Staff Training

Training is any learning activity which is directed towards the acquisition of specific knowledge and skills for purposes of an occupation or task. The focus of training is the job or task, Cole (1997). In general training refers to a planned effort by a company to facilitate employees learning of job related competencies. These include knowledge, skills, or behaviours that are critical for successful job performance. Training and development is the framework for helping employees to develop their personal and organizational skills, knowledge and abilities. The focus of all aspects of Human Resource Development is on developing the most superior workforce that can accomplish organizational goals efficiently and effectively.

Training is a short-term learning process which is application specific, intended for improving skill or knowledge, which has immediate application to the benefit of the individual as well as the organization. Development is the process of transition of an employee from lower level of ability, skill and knowledge to that of a higher level. This transition is influenced by education, training, work experience and environment, Nair & Chand (2004). Caudron (1995) indicates that training propels desired action. Once employees understand what needs to be done to improve the organization, they then need all the skills and resources necessary to be able to accomplish these improvements. He concludes that empowerment training is more remedial and it prepares for collaboration and higher level performance.

Harris *et al* (2003) allude that training and development of any kind should have, as its objective the redirection or improvement of behavior so that the performance of the trainee becomes more useful and productive for himself and the organization which he is part of.

Thus, in Performance Contracting, training and development programs should be carried out to ensure efficient delivery of service. Gupta (2005) outlines various needs and benefits of training and development. These include new environment, lack of trained personnel, advancement in technology, faulty methods, prevention of accidents and need for career development. Gupta opines that the benefits of training are; increased productivity, job satisfaction, reduction in accidents, and better use of resources, reduced supervision, greater flexibility, stability and growth.

Training today plays a key role in the performance management process. This is the integrated process that employers use to make sure that employees are working towards organizational goals. It means taking an integrated goal-oriented approach to assigning, training, assessing, and rewarding employee performance. Taking a performance management approach to training means that the training effort must make sense in terms of what the company wants each employee to contribute to achieve the company's goals through Performance Contracting, Kobia & Nura (2006). Training and development process consists of five steps namely: Need analysis which identifies the specific job performance skills needed, assesses the prospective trainees skills and develops specific, measurable, knowledge and performance objectives based on any deficiencies. Instructional design, here one decides on, compile and produce the training program content. Validation, the bugs are worked out of the training program by presenting it to small representative audience.

Nuthu(2008) states that, it would be unfair to the employee and unrealistic for the organization to expect results from employees who do not have the necessary skills and competencies for effective performance of tasks. She argued that for Performance Contracting to succeed there is need for personal development plan, which is an important aspect of

performance management. The plan empowers employees to meet objectives set in the Performance Contract, by equipping them with skills and the necessary knowledge. She further opines that the plan is based on the belief that everyone is capable of learning more and doing better in his or her job. Personal development plans are particularly important as they provide a learning action for which individuals are responsible for, with the support of their managers.

It may include formal training, learning and development activities such as self managed learning, coaching, mentoring, project work, job enlargement and job enrichment. This training may be to fill performance opportunity and growth gaps. Lastly when all the above requirements have been understood and agreed upon, Performance Contract is then made between the employee and the employer, Bouckaert *et al.*, (1999). In its most simple form, the Performance Development Process can be explained in three steps: setting expectations, (where the employee sets up a personal development plan){PDP}: checking progress and evaluating results. The Performance Development Process supports training and development, planning, recruiting, career development and corrective action.

2.3.4 Organizational Structure

Organization should be structured in such a way that it can respond to pressure to change from the environment and pursue any appropriate opportunities which are spotted (Lorsch, 2002). Therkildsen (2001) noted that while performance contracting formulation requires the abilities to conceptualize, analyze and judge, implementation involves working with and through other people and institution of change. It is important therefore that in designing the organization structure and making it operational, key aspects such as empowerment,

employee motivation and reward should be considered. Pearce and Robinson (2007) agree that strategy and structure need to be mandated and be supportive of each other in order to achieve objective set. Structure is the means by which the organization seeks to achieve its strategic objective and implement strategies and strategic change.

Performance contracting are strategies formulated and implemented by managers operating within the current structure (Peng and Litteljohn, 2001). The structure of an organization is designed to breakdown how work is to be carried out in business units and functional department. People work within these divisions and units and their actions take place within a defined framework of objectives, plans and policies. Successful performance contract implementation depends on a large part on how a firm is organized. The structure helps an organization identify its activities and the way in which it will coordinate them to achieve the firms strategic objectives. It also provides managers with a vehicle to exploit fully the skills and capabilities of the employees with minimal costs and at the same time enhance the firms' capacity to achieve superior, efficient, quality, innovations and customer responsiveness (Pearce and Robinson, 2007).

Competitive culture is necessary for PC to be effective. Competitiveness means that government policies must be geared towards enhancing productivity of the economy, reducing cost of doing business and supporting entrepreneurship, innovativeness and R&D. The global community encourages competitiveness at various levels. For example, the World Bank through the World Economic Forum annually publishes the Global Competitiveness Report for world economies (Peoplestreme, 2008). A similar initiative between the World Bank and the African Development Bank results into the annual production of the Africa Competitiveness Report. Both are respected publications across the globe. Public officials

therefore need to adopt a culture of competition and benchmark their performance with global standards set out by various institutions.

2.4 Research gap

Performance Contracting is a systematic process which brings about many positive changes to the whole organization in attaining the predetermined goals and objectives. However, there are a lot of resistances by members of staff who lack the necessary understanding of the whole idea thereby frustrating the whole process. There is also a problem with the way organizations are implementing the program especially when it comes to the area of employee appraisal. Some employees in a number of organizations have faulted the criteria used in evaluating them, disagreed with the ratings with regard to the performance contract. They argue that ratings are likely to be based on largely subjective judgments and could therefore well be unfair or discriminatory.

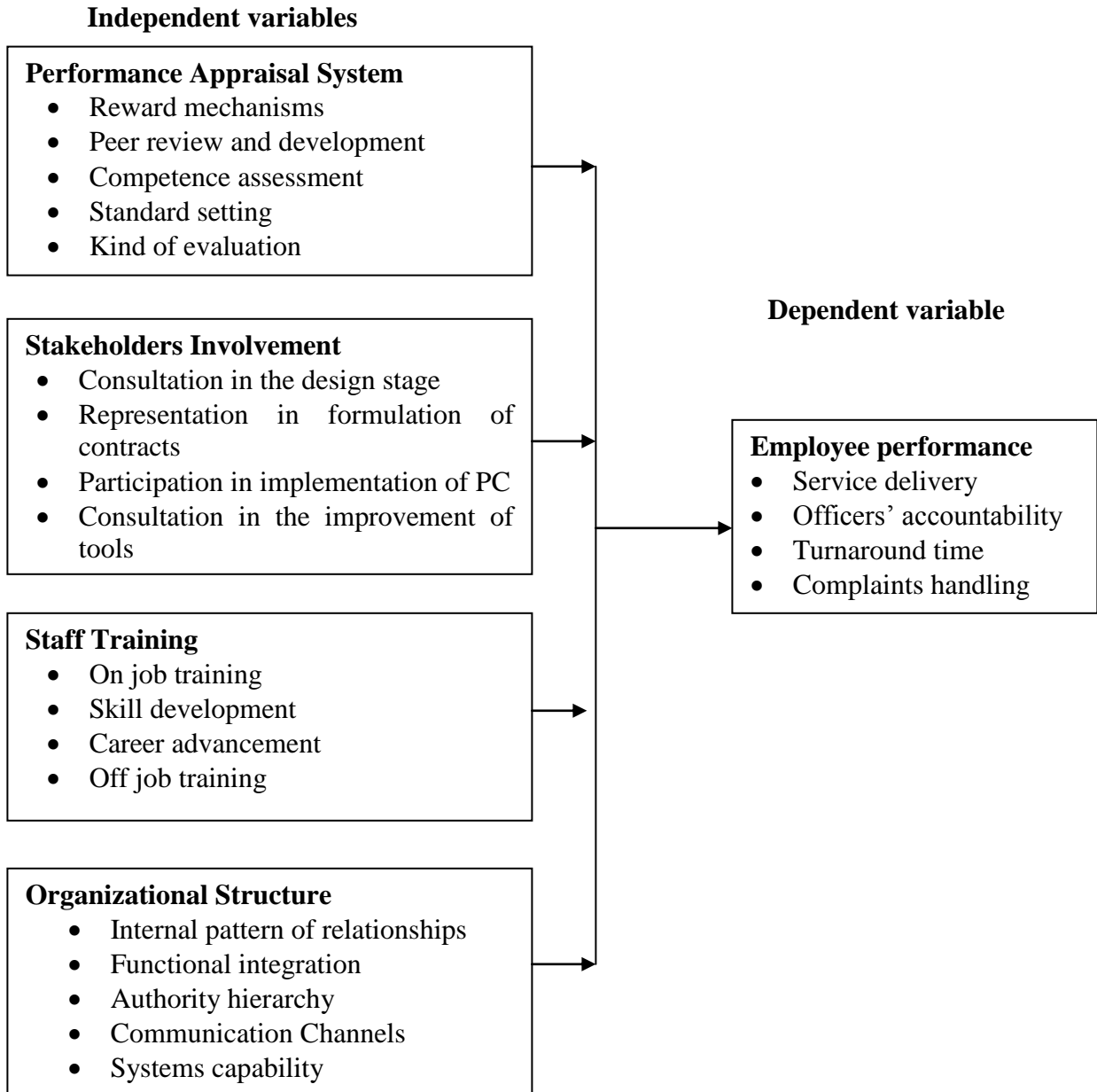
Mintzberg argued that effective communication can foster greater commitment, increase job satisfaction and act as a conduit for the promotion and development of collaboration in the organization. According to Harris *et al*, (2000) training and development of any kind should have, as its objectives the redirection or improvement of behavior so that performance of the trainee becomes useful and productive for himself and the organization. However, these writers did not bring out the main purpose and importance of training on performance contracting. The argument according to Harris *et al*, (2000) is that pay should be linked to performance because this is what organizations need and it is fair, but what is seen as fair varies between national cultures. These writers did not clearly bring out why and how performance contracting should be related to remuneration.

In the review of the literature, the following aspects require attention of current research: to assess the influence of performance appraisal system on employees' performance in Embu Water and Sanitation Company; to establish the effect of stakeholders involvement on employees' performance in Embu Water and Sanitation Company; to determine the effect of staff training on employees' performance in Embu Water and Sanitation Company and to establish the effect of organization structure on employees' performance in Embu Water and Sanitation Company Limited.

2.5 Conceptual Framework

Conceptual Framework is the result of when a researcher conceptualizes the relation between variables in the study and show the relationship graphically or diagrammatically (Mugenda & Mugenda 2003). A conceptual definition is an element of the scientific research process in which a specific concept is defined as a measurable occurrence or in measurable terms; it basically gives one the meaning of the concept (Musa, 2001). Independent variables are those variables which are systematically varied by the researcher. On the other hand, dependent variables are those variables whose values are presumed to depend on the effects of the independent variables.

Figure 2.1: Operational Framework



Source: Researcher, (2014)

Performance appraisal is feedback system that involves the direct evaluation of individual performance by a supervisor, manager or peers. Most organisations have some kind of evaluation that is used for performance feedback, pay administration and in some cases counseling and developing employees. Thus performance appraisal represents an important link between goal setting and process and reward system.

The performance contract formulation process should be consultative. This will create ownership and enable the setting of targets that are realistic by the implementing agency. In Swaziland the uses of consultants to develop the contracts lead to their failure. Different corporations have different mandates as per the laws establishing them.

Training is any learning activity which is directed towards the acquisition of specific knowledge and skills for purposes of an occupation or task. Training is a short-term learning process which is application specific, intended for improving skill or knowledge, which has immediate application to the benefit of the individual as well as the organization.

Organization should be structured in such a way that it can respond to pressure to change from the environment and pursue any appropriate opportunities which are spotted (Lorsch, 2002). Performance contracting are strategies formulated and implemented by managers operating within the current structure (Peng and Litteljohn, 2001).

CHAPTER THREE : RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes and discusses the various stages and phases that will be followed in completing the study. It consists of the research design, population of the study, sampling procedure, data collection procedure and instrument, pilot testing and data analysis and presentation.

3.2 Research Design

Descriptive survey will be used in this study to collect information. A descriptive survey is a process of collecting data from the members of a population in order to determine the current status of the subject under study with respect to one or more variables (Mugenda and Mugenda, 2003). This is because it enables collecting of information about people's attitudes, opinions, habits or any of the variety of education or social issues. According to Babbie (2011), descriptive study is concerned with finding out who, what, why, where and how of the variables, which is the concern of this research.

3.3 Target Population

The target population for the study will consist of employees of Embu Water and Sanitation Company Limited at all the levels of management staff. This will consist of senior managers, Middle level Managers and lower level managers. The population of the study will involve 100 management staff in Embu Water and Sanitation Company Limited.

Table 3.1: Target Population

	Frequency	Percentage
Senior managers	9	9

Middle level managers	30	30
Low level managers	61	61
Total	100	100.0

Source: HRM, 2014

3.4 Sampling Procedure

According to Kothari (2004) sampling gives the same characteristics and composition as the population. A sample population of 79 will be arrived at by calculating the target population of 100 with a 95% confidence level and an error of 0.05 using the below formula taken from Mugenda and Mugenda (2003): From Normal distribution the population proportion can be estimated to be;

$$n = \frac{Z^2 PQ}{\alpha^2}$$

Where:

Z is the Z – value = 1.96

P Population proportion 0.50

Q = 1-P

α = level of significance = 5%

$$n = \frac{1.96 \times 1.96 \times 0.5 \times 0.5}{0.05 \times 0.05}$$

$$n = 384$$

Adjusted sample size

$$n.' = 384 / [1 + (384/100)]$$

$$\text{Approx} = 79$$

Stratified proportionate random sampling technique will be used to select the sample. According to Babbie (2010) stratified proportionate random sampling technique produce estimates of overall population parameters with greater precision and ensures a more representative sample is derived from a relatively homogeneous population. Stratification aims to reduce standard error by providing some control over variance. The study will group the population into three strata i.e. senior managers, middle level managers and low level managers. From each stratum the study will use simple random sampling to select 79 respondents. Stratified random sampling technique will be used since population of interest is not homogeneous and could be subdivided into groups or strata to obtain a representative sample.

Table 3.2: Sample Size

	Frequency	Percentage	Sample size	Percentage
Senior managers	9	0.79	7	8.9
Middle level managers	30	0.79	24	30.4
Low level managers	61	0.79	48	60.8
Total	100	0.79	79	100.0

Source: Research, 2014

3.5 Data Collection Instrument

Both the primary and secondary sources of data will be used to obtain information for the study. Primary data will be obtained through administering a structured questionnaire which comprises of open-ended and closed questions. Questionnaires enable respondents to respond to questions with assurance that their responses will be anonymous, and so they may be more truthful than they would be in a personal interview, especially when talking of sensitive issues (Leedy & Ormrod, 2005). The secondary data will be collected through secondary desk

reviews from available theoretical and empirical literatures. The questionnaires will be administered through a drop and pick later because it is easy to use and within reasonable time data can be obtained.

3.5.1 Pilot Testing

The questionnaires will be subjected to a pilot test to ensure content reliability and validity. A sample of 10 respondents who will not form the sample size will be used to test the research instrument. The validity of the instruments is the degree to which an instrument measures what it is supposed to measure and consequently permits appropriate interpretation of scores (Nachmias and Nachmias, 1996). Also validity is the process of developing and validating an instrument in a large part focused on reducing error in the measuring process (Kimerlin and Winterstein, 2008). The study will adopt content validity that can detail the entire population of behavior (or other things) that an operationalization is supposed to capture.

According to Mugenda and Mugenda (2003) reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials. Reliability of the measures derived from tests and questionnaires refers to the consistency, stability and repeatability of the data collection instruments. Reliability is concerned with whether alternative researchers would reveal similar information (Serekan, 2003). The study will adopt the internal consistency technique where scores obtained from one item is correlated with scores obtained with other items in the instrument (Kothari, 2004). The data from the pilot test will be analyzed using Cronbach's alpha. Cronbach alpha determines the internal consistency or average correlation of items in a survey instrument to gauge its reliability (Mugenda and Mugenda, 2003).

3.5.2 Data Collection Procedure

The study will use both primary and secondary data. Primary data will be obtained through self-administered questionnaires with closed and open-ended questions. Bogdan & Biklen (2003) argue that, in order to get respondents beliefs, their opinion on issues, values and attitudes, a self-administered questionnaire is recommended. The questionnaire will include both structured and unstructured questions. The questionnaire will be administered through the drop and pick method to the top, middle and lower managers in the Embu Water and Sanitation Company Limited.

Secondary data will also be collected for this study. This data will be useful for generating additional information for the study from already documented data or available reports. Cooper & Schindler (2003) further explain that secondary data is a useful quantitative technique for evaluating historical or contemporary confidential or public records, reports, government documents and opinions. Mugenda and Mugenda (2003) add that, numerical records can also be considered a sub category of documents and that such record include figures, reports and budgets. This basically implies the incorporation of valuable statistical data in the study.

3.6 Data Analysis Techniques

Before processing the responses, the completed questionnaires will be edited for completeness and consistency. Quantitative data collected will be analyzed by the use of descriptive statistics using SPSS (Version 20) and presented through percentages, means, standard deviations and frequencies. The information will be displayed by use of bar charts, graphs and pie charts and in prose-form. This will be done by tallying up responses, computing percentages of variations in response as well as describing and interpreting the data in line

with the study objectives and assumptions through use of SPSS (Version 20) to communicate research findings.

Content analysis will be used to test data that is qualitative in nature or aspect of the data collected from the open ended questions. This study will be interested in investigating the influence of performance contracting implementation on employees' performance in Embu Water and Sanitation Company Ltd. In addition, the study will conduct a multiple regression analysis.

The regression equation will be :

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \varepsilon$$

Whereby Y = Employee performance, X₁= performance appraisal system, X₂= stakeholders involvement, X₃= staff training and X₄= Organization structure while β_1 , β_2 , β_3 and β_4 are coefficients of determination and ε is the error term. This generated quantitative reports through tabulations, percentages, and measures of central tendency.

3.7 Ethical Issues

Due to sensitivity of some information collected, the researcher holds a moral obligation to treat the information with utmost propriety. Since the respondents might be reluctant to disclose some information, the researcher needs to reassure the respondents of use and confidentiality of the information given.

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Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Performance appraisal is the feedback system that involves the direct evaluation of individual performance by a supervisor, manager or peers					
Performance appraisal represents an important link between goal setting and process and reward system					
Managers should facilitate performance by identifying obstacles to good performance and providing resources to accomplish objectives and encourage performance by providing a sufficient number of rewards that people care about and doing so in a timely and fair manner					
Any systematic approach to performance appraisal will commence with the completion of an appropriate appraisal form					

6. How else does performance appraisal affect employees' performance in Embu Water and Sanitation Company Limited that is not mentioned above?

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PART C: STAKEHOLDER'S INVOLVEMENT

7. Does stakeholder's involvement influence employees' performance in Embu Water and Sanitation Company Limited?

Yes () No ()

8. To what extent does stakeholder's involvement influence employees' performance in Embu Water and Sanitation Company Limited?

Very great extent []

Great extent []

- Moderate extent []
- Little extent []
- No extent []

9. To what extent do you agree with the following statement relating to stakeholder’s involvement influence on employees’ performance in Embu Water and Sanitation Company Limited?

Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Stakeholder’s involvement in formulation of the strategies in the strategic plans provides invaluable support during the implementation of the activities					
Consultation during performance contract formulation process creates ownership and enable the setting of targets that are realistic by the implementing agency					
There should also be continuous capacity building, research and development to ensure improvement and sustainability of performance contract process					
All the stakeholders should be involved in the various stages of the performance contract process					

10. How else does stakeholder’s involvement influence employees’ performance in Embu Water and Sanitation Company Limited that is not mentioned above?

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PART D: STAFF TRAINING

11. Does staff training influence employees’ performance in Embu Water and Sanitation Company Limited?

- Yes ()
- No ()

12. To what extent does staff training influence employees' performance in Embu Water and Sanitation Company Limited?

- Very great extent []
- Great extent []
- Moderate extent []
- Little extent []
- No extent []

13. To what extent do you agree with the following statement relating to staff training influence on employees' performance in Embu Water and Sanitation Company Limited?

Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Training should be provided to key employee in the Embu Water and Sanitation Company Limited before and during implementation process					
Once employees understand what needs to be done to improve the organization, they then need all the skills and resources necessary to be able to accomplish these improvements					
Empowerment training is more remedial and it prepares for collaboration and higher level of performance.					
Training and development of any kind should have, as its objective the redirection or improvement of behavior so that the performance of the trainee becomes more useful and productive for himself and the organization which he is part of					
Lack of trained personnel, advancement in technology, faulty methods, prevention of accidents and need for career development					

14. How else does staff training affect employees’ performance in Embu Water and Sanitation Company Limited that is not mentioned above?

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PART E: ORGANIZATION STRUCTURE

15. Does organization structure affect employees’ performance in Embu Water and Sanitation Company Limited?

Yes () No ()

16. To what extent does organization structure affect employees’ performance in Embu Water and Sanitation Company Limited?

- Very great extent []
- Great extent []
- Moderate extent []
- Little extent []
- No extent []

17. To what extent do you agree with the following statement relating to organizational structure influence on employees’ performance in Embu Water and Sanitation Company Limited?

Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Performance contracting formulation requires the abilities to conceptualize, analyze and judge, implementation involves working with and through other people and institution of change					

It is important that in designing the organization structure and making it operational, key aspects such as empowerment, employee motivation and reward should be considered.					
Strategy and structure need to be mandated and be supportive of each other in order to achieve objective set					
The structure of an organization is designed to breakdown how work is to be carried out in business units and functional department					

18. How else does organization structure affect employees' performance in Embu Water and Sanitation Company Limited that is not mentioned above?

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Thank you

Appendix II: Time plan

The research project will run for approximately five months as indicated in the schedule from January to June 2014

Activities	Jan 14				Feb 14				March 14				April 14				May 14				June 14			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Formulation of the topic and research problem																								
Proposal development																								
Proposal defense																								
Data collection																								
Report writing																								

Appendix III: Research Budget

The researcher will finance the project in full. The estimates are as indicated in the schedule.

ITEM	TOTAL (KShs)
1.Stationery & photocopy	5,000
2.Field Data Collection & Transport	10,000
3.Data Editing, Analysis & Coding	10,000
5.Report writing, printing and binding	20,000
4.Contingency	5,000
Total	50,000