

**PERFORMANCE CONTRACTING AND EMPLOYEE MOTIVATION IN
SELECTED COMMERCIAL BANKS IN NAIROBI CITY COUNTY, KENYA.**

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February 2018.

DECLARATION

I declare that this research project is my original work and to the best of my knowledge has not been presented for a degree in any other university.

.....

.....

Signature

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I confirm that the work in this project was done by the candidate under my supervision.

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DEDICATION

I dedicate this Research project to the Almighty God for His grace, opportunity and provision throughout this journey. I also wish to dedicate this work to my wife Weddy, son Alvin, parents and friends for their support, encouragement and prayers. Finally, my Supervisor and all other lecturers who have seen me through the whole degree program.

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I want to acknowledge and appreciate the support, prayers and encouragement of my family, friends and colleagues throughout this journey to the completion of this work. I also extend my sincere gratitude to my supervisor Dr. Priscilla Ndegwa for her guidance, patience, resilience and understanding that has been the strong pillar through this journey. I also thank God for the opportunity, health and guidance on this path towards completion of this work.

OPERATIONAL DEFINITION OF TERMS

Performance Contract	An agreement between an employer and an employee, which establishes general goals for the organization, sets targets for measuring performance and provides incentives for achieving these targets.
Performance Contracting	Establishment of an agreement between an employer and an employee, which establishes general goals for the organization, sets targets for measuring performance and provides incentives for achieving these targets.
Target Setting	The process by which performance deliverables are discussed and agreed upon between an employee and their leader which form the measure upon performance achievement will be measured against.
Performance Evaluation	This is the process where the performance of an employee is measured at the end of a performance period against the target set at the beginning of that performance period.
Performance Development programs	These are programs used to correct unsatisfactory performance with the aim of enabling employees who did not meet their target during a certain performance period to improve their performance over the next performance period.
Reward	This is incentive and/or compensation given to employees who have achieved or exceeded their performance targets.
Motivation	Internal and external factors that stimulate desire and energy I people to be continually interested and committed to a job.
Commercial Bank	Type of financial institution that provides services such as accepting deposits, making business loans, and offering basic investment products

LIST OF ABBREVIATIONS

PC	Performance Contracting
CBK	Central Bank of Kenya
PIP	Performance Improvement Plan
GoK	Government of Kenya
HR	Human Resource
HRMIS	Human Resource Management Information System

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ABSTRACT

Performance contracting (PC) was introduced for among other reasons, to ensure high performance. True to this, commercial banks in Kenya have performed exemplary over the years. Whereas many factors over and above PC could be attributed to this performance, the effect of PC in enhancing productivity and operational efficiencies which culminate in the profitability of the commercial banks cannot be underscored. Motivation on the other hand has been proven to culminate in high performance. This then raises an interesting question: Is there a relationship between PC and employee motivation in the selected commercial banks in Nairobi City County, Kenya? This study sought to investigate whether there existed a relationship between PC and employee motivation in the selected commercial banks in Nairobi City County, Kenya. The banks were Kenya Commercial Bank, Co-operative Bank of Kenya, Equity Bank, Barclays Bank and Standard Chartered Bank. This study was made necessary by the fact that whereas PC has improved employee motivation in some areas, it had also failed to improved employee motivation in others. No research had been done to establish whether PC had in any way affected employee motivation in the commercial banks and more so in Nairobi County, Kenya. This study therefore had the general objective of finding out whether there existed a relationship between PC and employee motivation in the selected commercial banks in Nairobi City County, Kenya. Specifically, the study looked at target setting and employee motivation, performance evaluation and employee motivation, performance development programs and employee motivation and reward and employee motivation. The target population was the 2727 employees of the selected commercial banks in Nairobi City County based at both Headquarters and branches. The sample was selected through random sampling technique and 12% of the employees for each of the five banks targeted. As a result, a sample of 327 employees were be engaged of whom 259 responded. Descriptive research design was used and primary data collected using a structured questionnaire prepared on a five point likert scale. The questionnaire was checked for reliability using the Cronbach's Alpha test on which it scored 0.817 against threshold of 0.7 thus reliable. Expert opinion was used to test the validity of the questionnaire. The resulting data first underwent a first stage of editing, coding, entry and processing using Statistical Package for Social Sciences (SPSS) version 23 and analyzed through descriptive analysis, percentages, frequency distribution and inferential analysis. The study established that performance contracting affected employee motivation by 55%. Target setting, performance evaluation and rewards all positively affected motivation whereas performance development programs negatively affected employee motivation. The study recommends for employee involvement in target setting, creation of mechanisms to address bias and partiality in performance evaluation and leveraging on rewards for motivation towards performance development programs. The study also recommends for clarity of rewards associated with certain levels of performance and this information to be made available to employee at the beginning of the performance period to act as a driver for exceptional performance.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

“Performance management is a recent development which adopts a future oriented strategic focus to managing performance and is applied to all employees in a workforce in order to maximize their current performance and future potential” (Mang’ale, 2013). Holdon and Beardwell (2001) define performance management as an ongoing process that in an organization’s operations which develops, communicates and enables its future direction, core competencies and values. Aguinis (2005) defines performance management as a continuous process of identifying, measuring and developing performance in organizations by linking each individual’s performance and objectives to organization’s overall goals and mission. Aguinis(2005) notes that performance management is a never-ending process of goal and objective setting, performance monitoring, measurement, exchanging feedback and coaching. Throughout this process, the managers have to ensure that the activities and outputs of their employees is in line with those of the organization. Performance management therefore becomes the direct link between performance of the employees with the organizational goals. This introduces the concept of performance contracting (PC).

Mang’ale (2013) defines PC as a performance management tool which defines the responsibilities and expectations between parties to achieve mutually agreed results. Managing performance is a continuing responsibility of managers and team leaders (Ngina, 2010). A performance contract thus becomes the tool used by managers and team leaders for this role. The use of performance contracts has received acclamation as an effective and promising means of performance improvement for private enterprises as well as department of government (Rosen, 1992). According to Birech (2011), PC ought to enhance job satisfaction for the employees, hoping that their satisfaction would culminate in improvement in their job performance. This posits that PC improves performance by ensuring job satisfaction for the employees. Employee motivation has been established to influence

organizational performance (Shah, 1996; Cater & Pucko, 2010). These two are juxtaposed to show that both PC and motivation positively contribute towards improved performance. This then elicits a thought on what could be the relationship between PC and motivation, thus this study.

1.1.1 Performance Contracting

Performance contracting (PC) 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 (Dombeger 1998).c Trivedi (2004) defines a performance contract as an agreement between government and the public authority of officer, which establishes the objectives, goals or targets and provides incentives for attainment of results. Ogangah (2008) defines a performance contract as an agreement between an employer and its employee, which establishes general objectives of the organization, sets targets for measurement of their performance and provides incentives for meeting those targets.

Employees in the banking industry in Kenya sign performance contracts (Sheikh, 2008). The performance contract details the key performance deliverables for staff in different roles with set targets to be achieved over a specified period of time (mostly annually) to which both the employer and the employee have consented to. The set performance targets are the basis upon which the employees' actual performance is measured. The performance contracts are mostly used to notify the employees of the expected level of service delivery, and this becomes the basis for measurement of their productivity over the period in observation.

PC aims to control and enhance performance of employees and in turn the institution's performance (Letangule & Letting, 2012). Banks have used PC as a tool to drive performance, improve operational efficiency and drive strategic objectives. This position is

supported by findings of Mohamed (2008) who found that banks that had adopted PC had improved in performance, accountability, governance and operational efficiency. Additional benefits were improved staff retentions and satisfaction because the performance evaluation is more objective and there's a high likelihood of employees being satisfied with the outcome of the evaluation process. PC however could be used for many other purposes depending on the nature of the activities/core functions of the firm/organization using it. PC could also be used as a strategy for employee commitment within an organization by synchronizing a performance based system with employee commitment for the overall organizational development (Kemboi, 2015). This is in line with Akaranga (2008) who asserted that PC ought to empower employees to employ their creativity so as to improve their job satisfaction, commitment and the overall performance of the organization.

This study will adopt the definition that a performance contract is an agreement between employers and employees on the goals to be achieved, the targets to be measured and the incentives accrued from attaining the targets.

1.1.2 Motivation

Daft (2003) defines motivation as forces inside or outside to a person which stimulates enthusiasm and persistence to pursue a course of action." He further explains that human beings have basic needs like food, security and achievement, which create internal drive for one to exhibit behavior that helps them fulfill those needs. This is in line with the view held by Dessler (1985) who stated that ultimately, all motivation comes from the tension that arises when one's important need(s) is unsatisfied. Employee motivation is reflected by the level of energy, commitment and creativity that's employed by the workers in their jobs. Various human resource applications and practices have been employed by many organizations continuously to try to motivate their employees to achieve enhanced performance. Reward systems are mostly used for this. These contain both intrinsic and

extrinsic, the former being financial rewards like bonuses, salary whereas the latter being non-financial such as promotion, recognition, security, title among others (Yang, 2008).

Grant (2008) found that motivation enhances to performance and productivity (Shahzadi et al., 2014). Therefore organizations have linked their reward systems to PC with actual performance against performance targets being the driver of the rewards. Different rewards are used to reward employees as found by Njoroge (2011) in the Kenya government ministries. Some of such rewards monetary, non-monetary and performance contingent rewards. Commercial banks in Kenya similarly use such rewards. Omollo (2015) found that Kenya Commercial Bank, a Kenya bank used both monetary and non-monetary rewards to motivate their employees. The effect thereof are high productivity, staff retention, and commitment. Motivation therefore becomes a critical element for an organization. An organization with motivated staff will have high productivity, high morale among employees and with these the organization gains a competitive advantage (Thiong'o, 2012). Burton (2012) asserts that organizations with employees who are not motivated not only lose on the benefits of having a motivated workforce, but also struggle to attract employees while simultaneously struggling to retain existing employees. This is despite employees being the most central part of an organization (Abbah, 2014). This is so because employees are the ones who drive attainment of the goals and objectives being pursued by the organization, which is what makes an organization successful.

1.1.3 Commercial Banks in Kenya

There has been considerable growth in the Kenyan banking industry in the recent years. The banking sector was robust and stable and registered enhanced performance in 2015 as demonstrated by a growth of 9.2 per cent in the total net assets of the banking industry and an increase in Customer deposits of 8.73 per cent in that year, (CBK, 2015). In addition, banks have expanded across Kenya by establishing branches and other places of business, increased

availability of mobile financial services and greater utilization of the agency banking model which allows commercial banks to contract third parties to, on their behalf, offer specified banking services.

As at 31st December 2015, the Kenyan banking sector comprised 43 banking institutions-42 commercial banks and 1 Mortgage Financier, seven (7) representative offices of foreign banks and several financial institutions, including building societies and mortgage finance companies. The Kenyan banking sector has five major banks as the dominant players: Kenya Commercial Bank Limited, Co-operative Bank Limited, Equity Bank Limited, Standard Chartered Bank Kenya Limited and Barclays Bank of Kenya Limited. These banks fall under the category as described by CBK and they are the top 5 banks in Kenya by market share. (CBK, 2015)

It should be noted that a majority of Kenyans utilize mobile banking by using mobile payment systems. These are operated by mobile communication companies such as M-Pesa by Safaricom, Airtel Money by Airtel and TKash by Telkom. M-Pesa users have been enabled to access banking services on their mobile phone through a mobile platforms such as Mshwari and KCB-MPESA. The platforms allows their subscribers to deposit, save and borrow money using their mobile phones.

Sheikh (2008) found that banks in Kenya has adopted PC as a way of improving efficiency. He further found that PC helped banks grow and increased the likelihood of those banks to retain staff better. Though this study was limited to multinational banks operating in Kenya, adoption of PC is evident across most commercial banks. PC has been attributed to good performance by banks, yet good performance is often attributed to motivation. This then provides the springboard for an enquiry into whether a relationship exists between PC and employee motivation within commercial banks in Kenya.

1.2 Statement of the Problem.

“If the PC improves performance of employees, does it also improve staff motivation? This question is posed by Tarus (2011) while recommending further studies into perceived relationship between PC and other human resources variables such as staff motivation. Gakure et al. (2013) identify that there is a research gap around PC and employee motivation, since there is no detailed study which has specifically been carried out to explain the effect of PC on performance effectiveness, concentrating on organizational productivity, organizational culture, organizational effectiveness and employee motivation.

Diallo (2017) poses a similar question: Is there a significant relationship between PC and employee’s motivation to reach the organization’s objectives? In his study on PC and employee motivation in public media sector, Diallo (2017) found significant relationship between PC and employee motivation in public media sector in Senegal. Pedersen et al. (1999) in their study of contract management at the Danish National Board of Industrial Injuries found that performance contracts were a powerful tool for motivating managers and employees to live up to the requirements of their contracts because to its nature as commitment to another party.

Studies around PC and employee motivation have yielded different results. Birech (2011) in his study found that PC actually motivated 61% of the respondents. Ngetich (2013) while investigating effects of PC on service delivery in Nakuru Sub-County found that majority of managers use performance contracts to motivate members of their departments. On the other hand, performance for pay systems whose intended purpose was to motivate public servants in Britain had failed to do so (Marsden, 2009). Even so, performance seemed to improve in a number of cases, but then it did so due to other causes other than motivation. This was primarily because of convergence of goal setting at individual and organizational levels,

which supported renegotiation of performance standards and priorities at the individual level (Marsden, 2009).

This brings an interesting perspective: whereas there is widespread evidence of PC improving performance, does it improve employee motivation? Or the improved performance is as a result of factors other than motivation? Even though there is evidence of PC motivating employees in different industries/sectors, there too exists contrary evidence in public sector in Britain. No research however has been done on PC in relation to employee motivation within commercial banks in Kenya. This therefore necessitates an enquiry into whether a relationship exists between PC and employee motivation in selected commercial banks in Nairobi City County, Kenya.

1.3 Objective of the Study.

The objectives of this research project were:

1.3.1 General Objective

The general objective of this research project were to investigate the relationship between PC and employee motivation in the selected commercial banks in Nairobi City County, Kenya.

1.3.2 Specific Objectives

- i) To establish the effect of target setting on employee motivation in the selected commercial banks in Nairobi City County, Kenya.
- ii) To establish the effect of performance evaluation on employee motivation in the selected commercial banks in Nairobi City County, Kenya.
- iii) To investigate how performance development programs affect employee motivation in the selected commercial banks in Nairobi City County, Kenya.

- iv) To examine the influence of reward on employee motivation in the selected commercial banks in Nairobi City County, Kenya.

1.4 Research Questions

- i) What is the relationship between target setting and employee motivation in the selected commercial banks in Nairobi City County, Kenya?
- ii) What are the effects of performance evaluation on employee motivation in the selected commercial banks in Nairobi City County, Kenya?
- iii) How does performance development programs affect employee motivation in the selected commercial banks in Nairobi City County, Kenya?
- iv) How does reward influence employee motivation in the selected commercial banks in Nairobi City County, Kenya?

1.5 Significance of the Study

The findings of this study will better inform commercial banks on the effects of PC on employee motivation therefore guide performance target setting and incentive/reward policies and employment policies and/or terms for their staff, ensuring high staff performance while sustaining employee motivation. This research will also be insightful to private sector players as well as government departments, agencies and ministries on utilization of PC to ensure employees are motivated whose end result is improved performance. Lastly, research institutions and academicians will benefit from an increase in knowledge another concept on PC and employees' motivation. This field is still in the infancy and any additional knowledge will in no doubt be a plus for research.

1.6 Scope of the Study

This study focused on PC in selected commercial banks in Nairobi City County Kenya in relation to employee motivation. The sample of five leading banks were selected purposively based on the CBK (2017) report by size and profitability. This yielded Kenya Commercial

Bank (KCB), Co-operative Bank of Kenya (Co-op), Equity Bank Ltd, Standard Chartered Bank (SCBK) and Barclays Bank (BBK). The scope was to look at their level of motivation attributable to PC across the banks, among employees in permanent employment and those on contract within headquarters and branches of the said banks in Nairobi City County. This study collected data in relation to the topic by use of a structured questionnaire administered by the researcher to the employees of the said banks within stipulated area.

1.7 Limitations of the Study

Banks have a very strict confidentiality policy, which means information could not be easily shared yet the information had relevance to the conclusions drawn by the researcher. The researcher exercised high level of confidentiality and professionalism in handling the data to gain trust of the bank personnel involved. Further, there was not been a lot of research and studies around PC in the banking sector and even more on PC and employee motivation. As a result, there was scanty literature in the area from which this research would have greatly benefitted. This research therefore maximized on the available data and made inferences from related data in other industries.

1.8 Organization of the Study

This paper was organized in five chapters. Chapter one introduced the concept and the objective statement. The value and scope of the study was also be discussed in this chapter at a great depth. Chapter two introduced theoretical and empirical literature that anchor the baseline of this research and finally concluded with the conceptual literature review where different variables will be discussed and how they interact with each other. Chapter three introduced the research methodology, data collection and analysis framework that was employed in handling the objective of the study. The type of data and instrumentation used were also discussed in this chapter. Chapter four delved into the findings of the research and analysis of the data from the research. Chapter five concluded the paper by discussing a

summary of the results, what the researcher concluded, recommended and suggested for further study.

CHAPTER TWO: LITERATURE REVIEW

This chapter reviewed the literature upon which this study was underpinned. The chapter entailed the theoretical review, empirical review and conceptual review.

2.1 Theoretical Review

This section delved into the theories upon which this study was hinged. This study was guided by three theories: Maslow's Hierarchy of Needs Theory, Herzberg's theory of motivation and Agency Theory.

2.1.1 Maslow's Hierarchy of Needs Theory

Maslow introduces the theory of hierarchy of needs in his book *Motivation and Personality* published in 1954. According to the theory, humans are motivated by five levels of needs i.e. physiological, safety, social, self-esteem and self-actualization (Maslow, 1954). These needs are arranged in a hierarchy where physiological needs are the basic whereas self-actualization is at the peak of them all (McLeod, 2014).

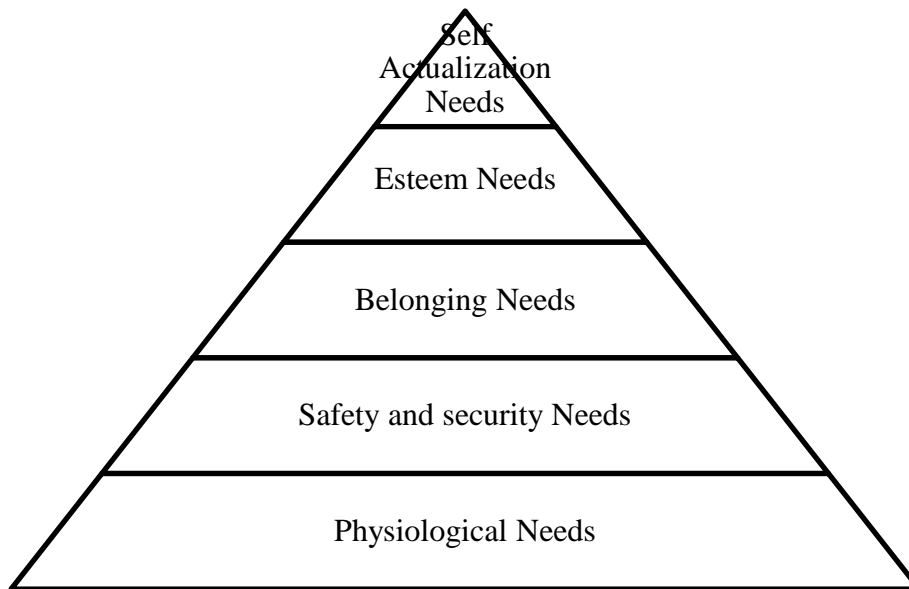


Figure 2. 1: Maslow's Hierarchy of Needs

Source: Personnel and Human Resource Management

The theory posits that a human being first pursues to satisfy the basic level need (physiological) and can only pursue the next level need upon satisfaction of the previous need. Thus, for one to pursue self-actualization one must have satisfied physiological, safety, social and self-esteem needs. Everyone desires and has the capability to ascend the hierarchy toward a level of self-actualization. Unfortunately, failure to meet lower level needs often disrupts their progress (McLeod, 2014).

The first and most basic human need is the physiological needs which include food, shelter among others. This posits that the initial drive for attainment of these physiological needs is what drives a person into employment, to find an income through salary or wages. Thus an organization has to provide employees with a salary to enable them meet this need for them to make much more contribution to the organization (Kaur, 2013). Once they find employment and are able to meet this need, then the safety need arises where the individual is seeking safety of employment in terms of stability of the employer, contract terms, protection through insurance among others. The employees also seek to work in an environment that is

free from harm, and possibly provision of protective gear for those working in risky environment. With this need met, the next need arises: Social. This has to do with gaining a sense of belonging and in the workplace this is actualized through recognition as being part of the team, welfare initiatives among others. Next the employee will seek esteem needs which are respect, recognition for performance/contribution to the team productivity among others. Lastly, and at the peak of the Maslow's hierarchy is self-actualization where in the workplace the employee seeks to fulfill their potential through taking on challenging (and probably new) tasks, being driven to achieve beyond what has previously been achieved or even personal initiative to take leadership on a role or activity (Kaur, 2013).

The theory was used to investigate employees' aspects of motivation as explained above against the variables of PC to establish whether there exists a relationship. Two of the objectives were investigated with regard to how they affect the motivational aspects of these needs. The two objectives are target setting and employee motivation, and performance evaluation and employee motivation.

2.1.2 Herzberg's Theory of Motivation

Herzberg came up with a two dimensional paradigm of factors which affect employee attitudes at work, namely hygiene factors and motivator factors. According to the theory, absence of hygiene factors can result in job dissatisfaction, but then the presence of these factors neither motivates nor creates satisfaction (Gawel, 1997). These hygiene factors are like company policy, supervision, interpersonal relations, working conditions and salary. On the other hand, motivators are what enriched a person's job; and identified five factors which were strong determinants of creating job satisfaction: achievement, recognition, the work itself, responsibility and advancement (Gawel, 1997). Whereas motivators (satisfiers) positively affected performance in the long-term, the hygiene factors (dissatisfiers) consistently

produced only short-term changes in job attitudes and performance, which rolled back quickly its previous level. (Gawel, 1997).

According to this theory therefore, there is need for a balance at the workplace through provision of satisfiers to keep the employees motivated, while simultaneously ensuring the dissatisfiers create the right working environment. For instance, promoting an employee (a satisfier) may not give the employee satisfaction when the working conditions are harsh to them. According to Wabwire (2016), application of this theory would take a two stage approach to motivate employees: first, you need to eliminate dissatisfaction being experienced by fixing obstructive and oppressive company policies; provide effective, supportive and non-intrusive supervision, create and support a culture of respect and dignity for all team members, ensure that wages are competitive, build job status by providing meaningful work for all positions and provide job security. Secondly, you need to help them find satisfaction; Create Conditions for Job Satisfaction i.e. "job enrichment" factors by providing opportunities for achievement, recognizing workers' contributions, creating work that is rewarding and that matches the skills and abilities of the worker, giving as much responsibility to each team member as possible, providing opportunities to advance in the company through internal promotions.

In the context of this study, the theory was utilized to investigate two objectives: performance development programs and employee motivation, and rewards and employee motivation. These two will be investigated as both hygiene factors and motivators since both are based on company policy (hygiene factor) and how resulting achievements are recognized and consequently do motivate employees.

2.1.3 Agency Theory

“The agency theory refers to a situation in which one party (referred to as the agent) is contracted by another (referred to as the principal) to act on their behalf based upon a designated fee schedule” (Namazi, 2013). The agency theory though initially developed in economics literature was applied in management to help determine co-operation between people with different goals in an organization, and also ensure there is congruency in the goals. (Eisenhardt, 1989). The people in question are the agent and the principal. This is what is often discussed as the principal-agent problem. The principal-agent problem is at times also known as agency dilemma or the agency problem. This occurs when the agent is able to make decisions on behalf of, or that impact the principal. This dilemma is precipitated by situations where agents are motivated to act in their own best interests, contrary to interests of their principals (Wikipedia). Below is pictorial representation of the Principal-agent relationship, where P represents principal while A represents agent.

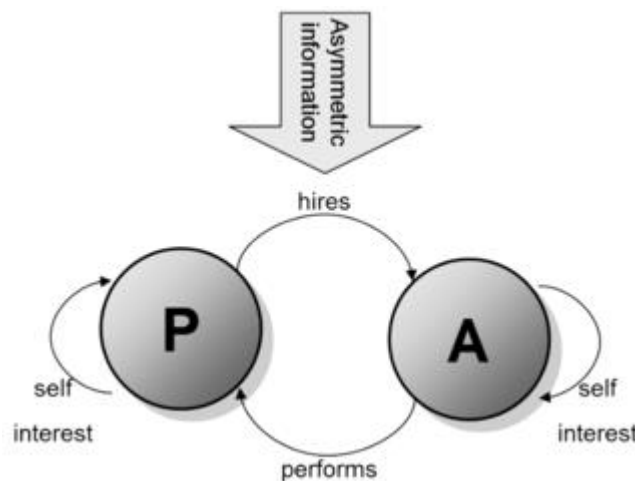


Figure 2. 2: Pictorial representation of the Principal-agent relationship.

Source: Wikiquote

To address this agency problem, principals can either invest in information systems to observe agent behavior or, when behavior is not easily observable, incentivize agent effort

(through payment) so that her behavior is aligned to the principal's desired outcome (Eisenhardt, 1989; Kim et al., 2007). The choice between behavior- and outcome- (performance-based contracts) should reflect efficient organization of information and risk bearing costs (Hypko et al., 2010). Agency concerns can be mitigated through two mechanisms: specifying in detail from the onset how the performance of a contracted target will be evaluated and using these measures to tie staff performance and monitoring the behavior of a staff during the development process (Amrit & Ashely, 2007).

In the context of this study on commercial banks, the principal is the shareholder (owner) whereas the agents are the bank's managers. The shareholders' interest would typically be growth of their net worth through smoothing running and profitable business. The agents however have their self interest being their personal growth in terms of position, salaries and wages, bonuses etc. As thus, there's need to have a contractual agreement between the principal and the agent through the interests of both parties will be aligned. This introduces the concept of PC which is the topic of this study. The performance contract will state the principal's interest and desired level of achievement (to which the agent has to consent) within a stipulated period of time mostly a year; against which the agent's actual achievement over the same period is measured and the attained level of achievement rewarded or otherwise. The agency theory thus gives rise to PC as a way of aligning the principal's and agent's interest; and this is the area of study for this research.

This study has four independent variables which stem from PC, which results from the agency theory. This study targets to establish whether there exists a relationship between PC and employee motivation through these objectives. These are target setting, performance evaluation, performance development programs and reward. These will be investigated from the perspective of the agent (management) and by extension the principal; and the effect thereof on the motivation of the employee.

2.2 Empirical Literature Review

This section reviewed previous studies around the areas of this study and the corresponding findings of those studies.

2.2.1 Performance Contracting and Motivation.

PC is a branch of management science referred to as a management control system (GoK, Training Manual, 2005). Kumar (1994) defines PC as a memorandum of understanding (MoU). In Kenya PC is used as a management tool to help the public and private sector executives and policy makers in definition of responsibilities and expectations/ deliverables between the parties under contract to achieve the goals mutually agreed upon (Kobia & Mohamed, 2006). Performance contracts have been defined differently by different scholars. There is however, similarity of their views as pertains the contents of performance contracts. Blasi (2002) defines a performance contract as an agreement between two parties that clearly specifies their mutual performance obligations, intentions and responsibilities. It is a performance agreement negotiated freely between the government, acting as the owner of a government agency, and the agency itself up to and including other levels of management levels of the organization. They most commonly include bonuses for good performance and less often, salary decrease where the performance is deemed poor. The increase interest in performance contracts coincides with the demands for greater accountability.

Pedersen et al. (1999) in their study of Public Sector Performance contracting in Denmark, contract management at the Danish National Board of Industrial Injuries showed that performance contracts were a powerful as a tool for motivating managers and employees meet requirements of the contract due to its nature as a commitment to another party. The motivation of employees could affect the performance of the whole organization. (Diallo, 2017). Low motivation in employees leads to low productivity whereas high motivation leads

to increased productivity (Thiong'o, 2012). In his recommendations, Thiong'o (2012) advises HR division of the Teachers' Service Commission to increase resource allocation to improve employee appraisal and motivation. This is an indication of a direct correlation between employee appraisal (one of the components of PC) and motivation. This consequently positively influences a firm performance as found out by Ng'ang'a et al. (2013).

Tarus (2012) investigated the perceived relationship between PC and employee motivation at the Agricultural Development Corporation, the results showed that respondents agreed that there existed a relationship PC and employee motivation with a mean of 4.18. There was also agreement by the respondents that management was keen on monitoring to ensure that standards were met with a mean score of 4.36 and that the respondents indicated greater effort put to work at a mean score of 4.33. Overall, 80% of the respondents indicated that PC had improved their performance with only 3% indicated negative influence and another 3% not sure of performance improvement. Tarus (2012) thus concludes that there is a positive relationship between PC and employee motivation.

Kipyego (2011) found 52% of the respondents indicated that adoption of PC at the energy corporations improved the level of performance in the organization to a very great extent, 26% of the respondents indicated that adoption of PC at the energy corporations improved the level of performance in the organization to a great extent, 13% of the respondents indicated that adoption of PC at the energy corporations improved the level of performance in the organization to a moderate extent, 4% of the respondents indicated that adoption of PC at the energy corporations improved the level of performance in the organization to a little extent and 4% of the respondents indicated that adoption of PC at the energy corporations did not at all improve the level of performance in the organization. The scope of the study however did not investigate any relationship to employee motivation.

Thiong'o (2012) found that majority 43.0% of employees received pay increment based on internal promotions and 42.3% based on normal increment, though the study could not establish whether internal promotions or normal pay increment could play any role towards motivational needs of the employees. In his bid to establish the motivational needs at the Teachers Service Commission, he found that provision of fair wages as the highest motivational need, represented by 56.6% of the respondents. Need for job satisfaction came second 53.1% and fair promotion at 46.9%. Job security followed 45.5%, recognition for work at 39.9%, improved technical capability and training at 37.8%, work safety at 32.2%, and need for self-esteem and reputation at 27.3%. Also featured were need for competence, and opportunity to take responsibility both at 23.8%, and lastly need for creative work at 22.4%. Of these, work safety was found to be the most used way to motivate staff at 46.1%, followed by fair promotion at 39% and job security at 29.8%. Opportunity to take responsibility followed at 19.3%, improved technical ability at 14.9%, provision of fair wages at 14.2%, recognition for work at 13.6%, need for competence at 12.9% and need for creative work at 7.9%. Need for self-esteem and reputation came last at 7.1%. In a bid to establish the benefits of motivation to the commission and its employees, the study revealed that 58.8% rated employees' motivation at the commission as good, a similar response obtained from the management staff. 45.8% of the ordinary members of staff informed the study that their supervisors reacted positively when the employees work under good motivation environment. This implies that even the supervisors embrace motivation as a way uplifts the morale of the employees as 80.2% revealed that there is satisfactory performance after motivation.

2.2.2 Target Setting and Employee Motivation

Target setting is the first stage in PC. It outlines the standards upon which the actual performance is measured at the end of the specified period in the contract. Performance

targets thus determine the bonuses, career prospects and promotion decisions through employees are motivated (Mauya, 2015). The performance targets are set in line with the organization's strategic objectives, thus used to attain the short term and long term objectives. The objectives have to be clear and their performance quantifiable of measurement purposes. According to Mauya (2015), involving staff in setting targets can get employees motivated to meet those targets and even identify way of carrying out the tasks. Further, the targets must be specific, measurable, achievable, realistic and time bound.

Mauya (2015) found that 63% of the respondents stated that the goals and objectives of the Ministry of Tourism were clearer with PC. On target setting, she found that 65% of the respondents stated that the setting of the standards and performance target was participatory. 60% of the respondents stated that the targets were clear and that 58% thought the targets were achievable. 50% of these respondents prioritized tasks; which indicate employee involvement in target setting got them motivated thus the prioritization of tasks aimed at achieving the targets, as concluded by Mauya (2015). She thus recommends that employees should be involved in target setting. This is in supported by findings of Muriu et al. (2013) who also found that involving employees in decisions pertaining to their work like target setting improved performance, which is indicative of motivated employees.

Kemboi (2015) found that whereas majority (31.3%) of the respondents were neutral on the question of whether the organization set achievable targets in the performance contract, a combined of majority of 39.8% agreed the targets were achievable, broken down as 24.1% responding that the targets are somehow achievable and 15.7% strongly agreeing the targets being achievable. This he attributes to the fact that not all employees are involved in the target setting thus those not involved are most likely to be neutral or disagree that the targets are achievable. This further reiterates the need for employee involvement in target setting.

Ngetich (2015) while investigating the effects of performance contract on service delivery in Nakuru Sub-County established that meeting the performance targets was cited as a challenge, which inhibits implementation of PC. This, he attributes to the fact that some of the performance targets were highly ambitious thus unachievable. This draws to the importance of the targets being realistic rather than ambitious.

Cesar (2014) sought to find out the factors that lead to success in setting up PC and managing the contract relation at Thogoto Teachers training college. He found that, of the respondents, 75% of the teaching staff considered setting achievable targets was the most vital success factors. Non-teaching staff considered good communication as the most vital with 65% in support while setting achievable targets came second with 55% of the respondents in agreement. Similarly, 56.7% of the students agreed setting achievable targets as the second most vital success factor after good communication at 64.4%. Whereas this study does not directly look at target setting in relation to motivation, it reinforces finding of other studies around targets being achievable as a success factor for PC, and probably enhancing employee motivation. This assertion is supported by the researcher conclusion that PC leads to employee job satisfaction when they meet requirements of their performance contract and thus recommends setting of realistic and achievable targets; and also employee involvement in target setting.

2.2.3 Performance Evaluation and Employee Motivation.

Simiyu (2012) defines performance evaluation as rating of the actual performance against set performance targets agreed at the start of the performance period. Mugwira (2011) defines performance appraisal as a feedback system that entails direct evaluation of an individual's performance by a supervisor, manager or peers. Thus performance evaluation and performance appraisal refer to the same thing. According to Mauya (2015) performance appraisal includes activities to ensure targets are being met continuously in an effective and

efficient manner. Performance evaluation supports the assertion that “what gets measured gets done” (Ceasar, 2014). Simiyu (2012) states that employees will be motivated to exert high level of effort when they believe that the effort will lead to a performance evaluation which will lead to rewards such as bonus, promotion, salary increase and that the reward will satisfy the employees’ personal goals.

Two processes which are used when reviewing performance of an individual are observation and judgment. However both have subjectivity issues arising from human error (Simiyu, 2012). The evaluation system must be viewed as relevant and fair by both the person rating and the one being rated; and the person rating has to believe in the importance of evaluation and feedback (Simiyu, 2012). She further states that it is imperative for performance evaluation to be viewed as a significant part of the rater’s job to motivate staff. From the perspective of the person rating, the relevance and fairness of the performance evaluation is integral, and should be utilized by raters who are familiar with the job performance person being rated. There should also be room for modification should flaws be detected. The evaluation systems also must have ability to distinguish between performance that is good, average and poor. This notwithstanding, she notes that it is difficult to eliminate biases. This is critical since evaluation outcomes lead to decision regarding promotions, salary increases, transfers, and even termination. Performance evaluation thus become a central area of study especially in relation to the topic of this study.

Koech (2012) found that National bank used a balanced scorecard as an evaluation tool, with semi-annual reviews on the targets which had been deliberately designed with measurable indicators. She further notes that whereas there was notable effort to make the evaluation process impartial, some of the respondents still felt that the process lacked independence for the fact that internal employees were used in the evaluation. Given that there was resistance to implementation of PC, it is therefore safe to conclude that performance evaluation must be

seen as being impartial by employees. This ties in with assertions of Simiyu (2012) regarding difficulty in eliminating human bias in the evaluation process.

Ng'ang'a et al. (2013) in their study of the link between performance appraisal and firm performance had similar findings. They found 84.8% of the respondents indicated that there existed a need to improve Performance Appraisal System in their respective Corporations. This can be supported by the fact that only 35.6% of the respondents said Performance Appraisal System is strictly adhered to, 48.1% objectives of Performance Appraisal System are clear to all employees, 32.2% said that employees are provided with Performance Appraisal System feedback and counseling and only 32.6% have faith in Performance Appraisal System. This is interesting since the respondents were HR practitioners in 29 state corporations in the Agricultural Sector. The fact that only a third of the respondents had faith in the appraisal system is wanting, especially considering that these are HR practitioners

2.2.4 Performance Development Programs and Employee Motivation

In the context of this study, the performance development programs refers to the ways or measures organizations use to support staff who do not meet their performance targets to improve and ensure they perform optimally. These are performance improvement programs. Behn (2003) defines performance improvement as measuring output of a system then calibrating it based on the feedback to increase output, efficiency and effectiveness.

One such methodology used is performance improvement plans/programs (PIP). Khan et al. (2014) defines PIP as a formal process which identifies critical factors that need to be rectified for improvement of performance. According to Sahoo and Mishra (2012), a PIP is designed to enable a meaningful discussion between an employee and their supervisor and to provide clarity on the work performance to be improved. The supervisor should monitor and give feedback to the employee on the performance on the PIP. The PIP identifies the

performance or behavior issues that need correction and forms a written action plan to guide measures towards improvement or correction (Khan et al., 2014). They further add that PIPs can be an effective tool in preventing problems from escalating or as an intervention measure when performance and/or workplace behaviors have become counterproductive. This notwithstanding, most studies indicate conflicting results regarding their effectiveness (Khan et al., 2014). There's negative perception towards PIP, with employees viewing it as a tool used to question their work, and given the stern course of action where performance does not improve, some employees actually do resign when placed under PIP (in line with the view that PIP is paper trail that leads to termination) and thus want to avoid the embarrassment. Further, there is indication that some managers use PIP to settle scores with employees whom they don't like for whatever reason by placing them on PIP, though many organizations put in place measure to check this. A similar view espoused by Liz Ryan, the founder and CEO of Human Workplace and contributor on Forbes website. Based on her experience as a Senior vice president in HR, she says when a manager places an employee on PIP, improving the employee's performance is the last thing on his/her mind. She adds that if a manager wanted to improve an employee's performance, they would sit down and discuss with the employee reasons as to why they are performing to expected standards and agree on solutions and work through them together. This introduces another dimension towards use of PIP: it should be preceded by face to face discussions, coaching and training.

Kamal Karanth, a talent specialist at Xpheno, in his article "Why performance improvement plans don't work" holds the view that PIP is a notice to an employee to find another job. He adds that the conflict within an employee once placed under PIP whether they can improve their performance within the stipulated performance period usually three months, or whether they need to have found another job within those three months. He concludes by saying that despite its good intentions, PIP still denotes lack of trust in the person's ability to perform the role. It is however worth noting that we have not come across research supporting these

opinions, neither have we found literature relating to how PIP impact on motivation of employees.

Employee training, coaching and mentoring are mostly used to remedy poor performance. Luecke (2004) defines coaching is an interactive process by which managers and supervisors seek resolution of performance issues or development of staff capacity through collaboration. It is founded on three components: technical support, personal support and individual challenge.” Patricia & Leonina-Emilia (2013) state that the objective of the coaching is not only to improve professional performance, but also rectify undesired behaviors and unlock a person's potential to maximize their own performance. They continue to state that involving the employee in a personal process of exploration and discovery, setting goals and implementing a specific action plan, followed by appropriate feedback, coaching leads in time to obtain good results.

According to Luecke (2004) coaching is about the current job and work whereas mentoring is concerned with the career in general. From these we can conclude that performance improvement program involve training, coaching and mentoring programs from which a clear action plan is drawn and performance thereof monitored to ensure there is improvement. Training on the other hand is defined as development of the knowledge, skill and attitudes required by an individual systematically for adequate performance of a given task or job (Armstrong, 2001). Atola (2014) defines training as organized activity whose aim is to at impart information and/or instructions for improvement of the trainee’s performance or attainment of a requisite level of knowledge or skill.

Training not only increases one’s skills at performing a task but also helps in change of attitudes towards work (Trever, 1991). This shows the role training plays in enhancing performance for employees performing below requirement. Adeniyi (1995) adds that some of

the benefits accrued from training are improved morale, efficiency and high skilled employees which are essential to improving one's overall performance.

Atola (2014) found out that training motivated employees, with 6% of the employees being motivated to a great extent, followed by 47% of the employees being motivated to a moderate extent, 33% to a little extent and 14% not motivated at all. This notwithstanding, 67% of the employees stated that training improved their performance in different ways whereas 33% disagreed that training improved their performance. This findings tie in with those of Kamao (2011) who found that training improved productivity at Kenya Co-operative Creameries for 67% of the respondents.

The International Coaching Federation (2009) showed that 70% of coaches reported improved job performance, 72% in communication skills and 61% in business management. Furthermore, 86% report a positive return on investment and 96% that they would repeat the coaching process. This demonstrates the positive impact of coaching at the workplace (Sonesh et al., 2015). This is supported by findings of Grant et al. (2009) who found that coaching resulted in increase in goal attainment, resilience and workplace well-being, and decreased depression and stress. Kyambi (2012) while evaluating high performance work practices on the performance in Kenya banking sector found that 63% of the respondents stated that coaching was part of the training and 62% on on-job-training. As a result, 73% of the respondents stated that this contributed to the performance of the organization.

Simiyu (2012) suggests that performance improvement can be achieved by giving employees opportunities to perform and giving rewards, either financial or non-financial when they do achieve the set performance standards. This is supported by findings of Messah & Kariuki (2011) who found that the employee opinion of performance improvement had improved with introduction of PC, in that the work environment had changed since they worked towards achieving targets associated with rewards or sanctions.

2.2.5 Reward and Employee Motivation

According to Jiang (2009), reward is the compensation to an employee for their service. He adds that rewards not only comprises money and other forms which can be monetized but non financials like access to decision making involvement, sense of achievement, growth opportunities among others. Reward comes at the tail end of PC, in that the targets were agreed upon, evaluation of the employee has been done and compensation comes in to reward performance.

Mugwira (2013) reiterates that high achievers need to be rewarded over and above their normal pay whereas those who perform poorly need to be ‘punished’ otherwise if this doesn’t happen then it will not only demotivate the high performers but also cast doubt on the rationale of the whole exercise. Tarus (2011) states that reward motivates good performance, which implicitly means reward leads to motivation. She further states that PC is motivating to employees if good performance is recognized and rewarded accordingly. This is affirmed by findings of Kamao (2011) who found that 68% of the respondents confirmed that remuneration was a motivating factor for them which in turn led to increased productivity. Ngetich (2013) suggests that involving employees in determining rewards for improved performance goes a long way in motivating them.

According to Stajkovic and Luthans (1997), past research has shown a positive relationship between rewards and motivation. This is consistent with the findings of Njoroge (2011) who found that a majority 54.3% of the respondents indicated that reward affect motivation of the employee and hence the performance of the ministry to a very great extent, 37.1% to a great extent and 8.6% to a little extent. Generally, this shows that reward affects motivation and hence the performance of the ministry to a great extent, thus she concludes that so as to enhance employees’ motivation, the ministries need to adopt the use of job-contingent and

person-contingent rewards, recognition from management, awards, fringe benefits and bonuses on the civil servants.

The World Bank in 2010 carried a study on “The impact of rewards programs on employee engagement” found that base salary, base salary increases and benefits and perquisites had high or very high impact on employee engagement as indicated by 40% of the respondents. Furthermore, 54% of the respondents believed that short-term incentives or bonuses had higher impact on employee engagement. Only 32% believed that long-term incentives and another 32% in financial recognition had a high impact on employee engagement. Further to this, there is perception that the impact of intangible rewards on employee engagement is very high with work environment or organization climate rated at 61%; 55% for work life balance; 69% for nature of the job or quality of work; and 59% for career development opportunities. Non-financial reward programs however received a relatively low score of 37%, casting an interesting perspective on the suggestion of using non-financial rewards to motivate and engage employees. The World Bank thus recommends use of total rewards and not just financial rewards.

Laakso (2012) sought to find out the extent to which total rewards were relevant and significant. 33.33% of the respondents agreed that it was very relevant and significant, 22.05% as fairly relevant and significant whereas 30.2% were neutral. Only 14.29% thought it fairly irrelevant and insignificant while none held the opinion that total rewards were very irrelevant and insignificant. Further, when respondents were asked whether they would put in extra effort in future based on past or current rewards, 61.9% agreed whereas 38.1% disagreed. This could be explained by the finding that 23.81% thought they were under-rewarded whereas a significant 76.19% thought they were not under-rewarded. When asked to comment on their perceived level of motivation, a majority 57.14% indicated they were fairly motivated, with 14.29% indicating to be highly motivated whereas 23.81% indicating

they are motivated and 4.76% indicating not so motivated. When asked on what motivates them, a majority 33.33% indicated that salary was their greatest source of motivation. Finally when asked what the company/organization should emphasize more or included within the organization, provision of career advancement opportunities came top with 18.03% of respondents agreeing. 16.39% thought more monetary recognition was needed. More verbal recognition and time off/free day for work well done had support of 13.11% of the respondents. These show employees look out for various rewards such as career advancement, salary increment and recognition among others. From these findings, the relationship between rewards and motivation are clearly demonstrated.

One notable finding with regard to reward and motivation is that there seems to lack clarity on the reward that comes with a certain level of performance. Kyambi (2012) found that of bank employees who believed that their reward was not commensurate with the value they brought to the bank, 40% stated that there was no standard formatting of rewarding.

2.3 Summary of Literature Review and Research Gaps

Locally, the only research done specifically on PC and employee motivation was by Tarus (2012) who studied the perceived relationship between PC and employee motivation at the Agricultural Development Corporation. This study despite being similar to this study, it was limited to a government agency whose operational model and industry are very different from that of the commercial banks which this research seeks to investigate. A similar study was carried out by Diallo (2017) on PC effects on employee's motivation in the Senegalese Public Media sector. This study was done in Senegal, and it was limited to the Public Media sector, thus this study lacks semblance with it on basis of location and industry of the subject of investigation. Another similar study was by Laakso (2012) who did a case study to investigate how financial and non-financial services and employee motivation in Finland, but such a study has not been localized.

Other similar studies have touched on PC and employee motivation though separately. Kipyego (2011) studied the effect of PC strategy on performance of state corporations in the energy sector, which is a different sector from the sector of this study, and the scope of the study did not investigate relationship between PC and employee motivation. Mauya (2015) on the other hand investigated the importance of setting performance targets on service delivery in PC at the Ministry of Tourism, Kenya. This study was limited to setting of performance targets, one of the elements of PC, and more so in the Ministry of Tourism. Further, this study did not investigate any areas of employee motivation.

Ng'ang'a et al. (2013) studied of the link between performance appraisal and firm performance in among HR state corporations in the Agricultural sector. This study did not touch on employee motivation and covered only performance appraisal, which is just one area within PC. Mugwira (2011) studied PC implementation and employee's performance in Embu Water & Sanitation Company Limited Embu County Kenya. This study was limited to employees' performance rather employee motivation as targeted by this study; and in a water and sanitation company. Messah (2011) studied factors affecting Implementation of Performance Contract Initiative at Municipal Council of Maua-Kenya. The scope of this study was different from that of the proposed study as it majored on implementation unlike this study looking at how it has been operationalized; and was focused on Municipal Council of Maua, whereas this study target selected commercial banks in Kenya.

Koech (2012) researched on challenges facing implementation of PC as a strategy at National Bank of Kenya. The research was done in a commercial bank which is in the industry targeted for this research. However, the area of study is different in that the research by Koech (2012) did not go into establishing whether there existed a relationship between PC and employee motivation. Simiyu (2012) researched on Performance contract as a tool for improving performance at Local Authorities. This study focused on performance contract as a

tool and was limited to local authorities in Kenya. Further, it did not investigate motivational effects arising from PC. The proposed study however looks at PC as a practice, rather than the tool. This proposed study does not also delve into resulting performance upon implementation of performance contracts.

As evidenced above, no research has been carried out specifically investigating the relationship between PC and employee motivation in commercial banks in Kenya. This research gap is further supported by Gakure et al. (2013) who identify that there is a research gap around PC and employee motivation, stating that there is no detailed study that has been carried out to specifically explain the effect of PC on performance effectiveness, concentrating on organizational productivity, organizational culture, organizational effectiveness and employee motivation.

2.4 Conceptual Framework

In this study, employee motivation was treated as the dependent variable while PC was the independent variable with indicators for each.

3. PERFORMANCE DEVELOPMENT PROGRAMS

- a) Programs used
- b) Effectiveness of the programs.
- c) Perception of the programs

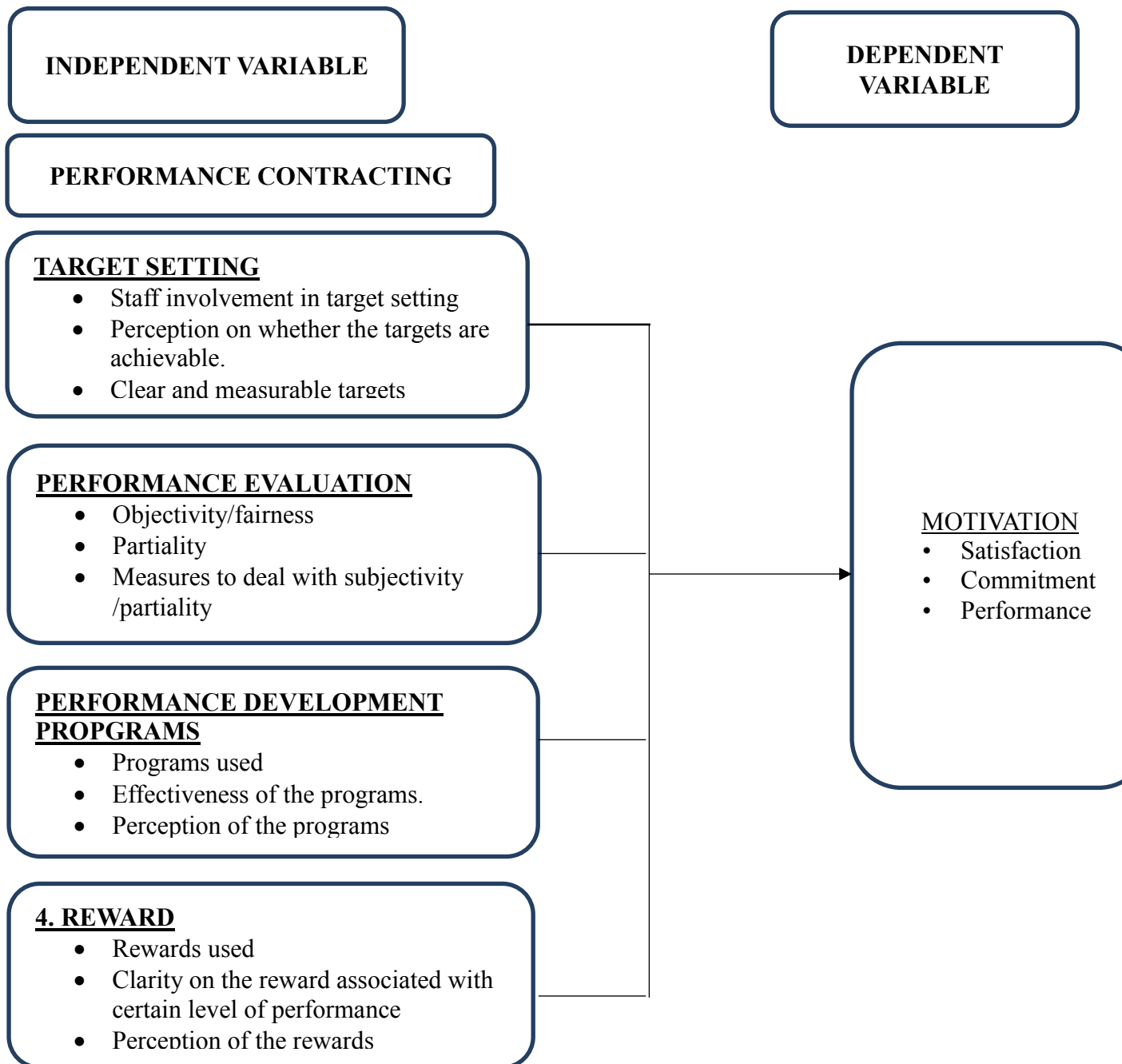


Figure 2. 3: Conceptual framework

Source: Author, 2018.

CHAPTER THREE: RESEARCH METHODOLOGY

This chapter delved into the methodology and considerations that were employed for research of this study. These included: research design, target population. Sample design, sample size

and approach to be used to reach the target sample. The section also highlighted the data collection methodology and tools; and the methodology for analyzing the data.

3.1 Research Design

This research employed a descriptive research design, in its quest to find out whether there existed a relationship between PC and employee motivation in the selected commercial banks in Kenya. Sloman (2010) defines a descriptive research design as one involving direct observation of behavior and environmental events in naturalistic contexts. This definition was supported by that put forth by Burns and Bush (2010) who defined it as a set of methods and procedures that describe variables. This research design was best suited for this study since it allows respondents to describe the situation as it is in the selected commercial banks in relation to target setting, performance evaluation, performance development program and reward and the effect thereof on employee motivation. The research utilized quantitative approach for this research, through use of closed ended questions in the questionnaire prepared on a likert scale.

3.2 Target Population

A population is a well-defined or set of people, services, elements and events, group of things or households that are being investigated (Ngechu, 2008). The target population was the selected commercial banks in Nairobi City County, which were Kenya Commercial Bank Limited, Co-operative Bank Limited, Equity Bank Limited, Standard Chartered Bank Kenya Limited and Barclays Bank of Kenya Limited. These five banks were selected by virtue being the largest banks in Kenya based on size as per CBK classification and profitability (CBK, 2017).

Table 3. 1: Target population

BANK	POPULATION	PROPORTION OF OVERALL
Co-operative Bank of Kenya	603	22%
Kenya Commercial Bank	687	25%
Equity Bank	612	22%
Barclays Bank of Kenya	398	15%
Standard Chartered Bank	430	16%
TOTAL	2727	100%

Source: Banks' HRMIS data, 2018

3.4 Sampling Design

A simple random sampling technique was used to distribute the questionnaire among the sample. The simple random sampling technique was chosen since all employees in the selected banks have performance contracts thus the perceptions and opinions of any of them regarding PC and their motivation was valid, nullifying the need for any purposive or stratified sampling. The sample population comprised of 12% of the employees in each of the selected commercial banks were selected resulting in 327 respondents. This is in accordance with Mugenda and Mugenda (1999), who stated that a sample size of between 10%-30% is sufficient for a descriptive study. Thus, the sample size for this research will be as below:

Table 3. 2: Sample size

BANK	POPULATION	SAMPLE SIZE	PROPORTION OF OVERALL
Co-operative Bank of Kenya	603	72	12%
Kenya Commercial Bank	687	82	12%

Equity Bank	612	73	12%
Barclays Bank of Kenya	398	48	12%
Standard Chartered Bank	430	52	12%
TOTAL	2727	327	

Source: Banks' HRMIS data, 2018

3.4 Data Collection Instrument

The data collection instrument was a questionnaire. The questionnaire was the preferred instrument for data collection due to its ability to collect primary data in a less expensive way in both monetary and time aspects since the respondent is allowed to fill in at their free time and completed questionnaire collected afterward. The study utilized primary data collected through structured questionnaires with closed ended questions. The questionnaire was prepared on a five point Likert scale, which allowed the respondents to indicate to which they were in agreement with the statements. The questionnaire was divided into six sections. Section 1 contained general information, whereas section 2 dwelt on target setting and employee motivation. Section 3 was on performance evaluation and employee motivation whereas section 4 delved into performance development programs and employee motivation. Section 5 was about reward and employee motivation and lastly section 6 dwelt on employee motivation.

3.4.1 Pilot Testing

A pilot study was done using 10 employees from the five commercial banks which involved a face to face interview to gauge their understanding of the questions on the questionnaire. This assisted to identify any mistakes, errors or issues in the general structure of the questionnaire, the clarity of the questions, and appropriateness of the questions in eliciting the desired information. After this, a pre-test was done with 15 employees randomly selected who were

be excluded from the sample. This was used to gauge the responses on whether they meet the objectives of the study and identify any areas of improvement.

3.4.2 Validity

Validity is important in checking how appropriate the research instrument is (Ceasar, 2012). According to Bryman and Cramer (1997) validity tests whether the research instrument actually measures what it is intended to measure. To ascertain validity of the questionnaire, expert opinion was used. The experts reviewed the questionnaire to check for validity of both the contents and also the construct of the instrument.

3.4.3 Reliability

Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials (Mugenda & Mugenda, 2003). Thus for a test to be reliable, similar results should be attained when repeated after a period of time, or similar test is carried out on a similar population. For this study, Cronbach’s alpha (α) test was used to measure reliability of the questionnaire, with $\alpha \geq 0.7$ being deemed reliable.

Table 3. 3 Reliability test results

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.817	.706	44

Source: SPSS, 2018

The questionnaire scored α of 0.817, which is above the threshold of ≥ 0.7 thus the instrument was reliable.

3.5 Data Collection Procedure

The questionnaire was administered by the researcher, and distributed through “drop” and “pick” method to allow respondents sufficient time to fill out the questionnaire.

3.6 Data Analysis and Presentation

Data analysis for this study involved a two-stage process. The first stage was perusing through the filled out questionnaires to check for completeness, and to identify and where possible correct any errors or ambiguities which may affect data processing. The second stage was data processing and analysis. Descriptive statistics, correlation and regression analysis was done. Data processing and analysis was done using statistical package for social sciences (SPSS), as the questionnaire will be collecting quantitative data.

The data was summarized using the descriptive statistics in forms of percentages, frequencies, mean and standard deviation. Correlation analysis was done using Pearson’s correlation coefficients. This was primarily be to test the strength of the relationship between the variables, but also check for multicollinearity among the variables. Regression analysis was done to ascertain the relationship between PC and employee motivation in the selected commercial banks.

3.6.1 Empirical Model

Linear regression analysis was done to ascertain existence of a relationship between PC and employee motivation in the selected commercial banks in Kenya. The linear regression equation took the form:

$$Y = \alpha_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Where:

Y = Employee motivation

B_1, β_2, β_3 and β_4 = Coefficients of the independent variables

X_1 = Target setting

X_2 = Performance evaluation

X_3 = Performance development programs

X_4 = Reward

ϵ = Error term

α_0 = Constant term, showing employee motivation in absence of PC

3.7 Ethical Considerations.

Authority was sought from the university for the research to be carried out. The respondents were explained to the reasons for which the research was being done, and informed that participation in the research was completely voluntary. Further, the researcher maintained high degree of integrity throughout the course of the study, ensuring confidentiality and anonymity of the respondents' identity and their responses to the various items in the questionnaire.

CHAPTER FOUR: RESEARCH FINDINGS

This chapter delved into the findings and analysis of the research. The responses from the questionnaires were summarized and presented in terms of frequencies, means and briefly discussed. Multicollinearity test was done to diagnose whether there existed any correlation among the variables. Multiple regression done to confirm the research's hypotheses.

4.1 Reliability Test

The questionnaire was tested for reliability using the Cronbach's Alpha test where a score of $\alpha \geq 0.7$ was deemed reliable. The instrument scored $\alpha = 0.817$ thus reliable.

4.2 Response Rate

The researcher targeted employees within Nairobi of the five commercial banks. A total of 327 questionnaires were distributed across the five commercial banks. A total of 259 questionnaires were returned representing a 79.2% response rate. Mugenda and Mugenda (2003) states that a response rate of 70% and above is excellent for data analysis, thus data collected for analysis was sufficient to meet objective of the study. The responses were distributed among the five commercial banks as tabulated in table 4.1.

Table 4. 1: Response rate distribution

BANK	Targeted Responses	Actual Responses	Percentage
Co-operative Bank of Kenya	72	58	80.6%

Kenya Commercial Bank	82	65	79%
Equity Bank	73	59	80.8%
Barclays Bank of Kenya	48	38	79.2%
Standard Chartered Bank	52	39	75%
TOTAL	327	259	79.2%

Source: Survey data (2018)

4.3 Respondent's Demographic Characteristics

The first part of the questionnaire required the respondent to fill out their profile. The information sought included their gender, age and length of employment with current employer.

4.3.1 Gender

Majority of the respondents were male at 61.4% whereas the female were 38.6%. This implies that there were no gender-based biases as both genders were significantly represented.

Table 4. 2: Gender of the respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	159	61.4	61.4	61.4
Female	100	38.6	38.6	100.0
Total	259	100.0	100.0	

Source: Survey data (2018)

4.3.2 Age of the respondents

A majority 37.8% of the respondents were aged between 28-33 years old with those aged between 34-40 years following closely at 30.1%. Those aged between 20-27 years old were 24.3% of the respondents whereas those above 40 years old were only 7.7%. From the age distribution, it is clear that bank employees of all age groups were represented thus the responses are a fair representation of the opinion of employees of different ages.

Table 4. 3: Age of the respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 20-27 years	63	24.3	24.3	24.3
28-33 years	98	37.8	37.8	62.2
34-40 years	78	30.1	30.1	92.3
Above 40 years	20	7.7	7.7	100.0
Total	259	100.0	100.0	

Source: Survey data (2018)

4.3.3 Length of employment with current employer

The researcher sought to understand the length of time which the respondents had been with their current employer. Those who had been with their employer for between 5-10 years were the majority at 43.2% of the respondents. Those who had been with their current employer for more than 10 years were 32.4% of the respondents while those who had worked with their current employer for less than 5 years were 24.3%. From the distribution of the length of time the respondents have been with the five commercial banks, it is evident that the responses do not represent opinions held by a group limited by how short or long they have been with their employer since the population has a wide spread as pertains to the length of time they have been with their employer. Further, this implies the respondents included those who have deeper understanding of how PC is operationalized and its effect to employee motivation having experienced it over a considerably long time thus their opinions are well informed and credible.

Table 4. 4: Length of time with current employer

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Below 5 years	63	24.3	24.3	24.3
5-10 years	112	43.2	43.2	67.6
Above 10 years	84	32.4	32.4	100.0
Total	259	100.0	100.0	

Source: Survey data (2018)

4.4 Descriptive Analysis

4.4.1 Target setting and Employee Motivation

The researcher sought to investigate whether there exists a relationship between target setting as done by the selected commercial banks and employee motivation. To achieve this, the requirement was that the respondents tick on the extent to which they were in agreement with the statements regarding target setting and motivation. The statements were prepared on a Likert scale ranging between 1 to 5 where 1 was very small extent, 2 was small extent, 3 was moderate extent while 4 was great extent and 5 stood for very great extent. The data was interpreted with the mean as the reference. The results are tabulated in table 4.5.

Table 4. 5 Descriptive Statistics for target setting and employee motivation

	N	Min	Max	Mean	Std. Deviation
The bank seeks your input when setting your targets	259	1	5	2.50	1.365
The targets set are clear and measurable	259	1	5	3.80	1.198
The targets are realistic and achievable	259	1	5	2.31	1.232
To what extent are you satisfied with the process used to set targets	259	1	5	2.31	1.260
To what extent are you committed to achieving the targets	259	1	5	2.49	1.482
To what extent do you believe you can perform exceedingly against the targets set	259	1	5	2.61	1.430

Source: Survey data (2018)

From table 4.5, majority of the respondents agreed that the bank sought their input into the targets set to a small extent (mean = 2.5). They agreed that the targets were clear and measurable to a high extent (mean=3.80). On the question of whether the targets were realistic and achievable, the respondents agreed that they were to a small extent (mean= 2.31). Similar, the respondents indicated that they were satisfied with the process for setting targets to a small extent (mean=2.31).Regarding commitment to achieving targets, the respondents indicated that they were committed to a small extent (mean=2.49) and they believed they can perform exceedingly well against the set targets to a small extent (mean= 2.61). This study found that employee involvement in target setting happened to a small

extent unlike as was found at the Ministry of Tourism where 65% of the respondents indicated that the setting of targets was participatory (Mauya, 2015). The targets were clear with PC as was found by Mauya (2015) where 60% of the respondents indicated that the targets were clear. This study established that the targets realistic and achievable to a small extent, which is in line with the findings of Kemboi (2015) where singular majority of 31.3% were neutral to the question of targets being achievable thus could be construed to imply they disagreed.

4.4.2 Performance Evaluation and Employee Motivation

The researcher sought to investigate whether there existed a relationship between performance evaluation and employee motivation.

Table 4. 6 Descriptive statistics for performance evaluation and employee motivation

	N	Min	Max	Mean	Std. Deviation
I believe the performance appraisal is done fairly and justly	259	1	5	3.36	1.377
My appraising officer discusses with me my performance for the period	259	1	5	3.29	1.388
My feedback regarding my performance for the period is considered in my overall rating by the appraising officer	259	1	4	1.95	.979
There are sufficient mechanisms in place to address my complains when the appraising officer is unfair and biased	259	1	4	1.46	.654
I am satisfied with how performance Appraisal is done by my employer	259	1	5	2.20	1.287
Valid N (listwise)	259				

Source: Survey data (2018)

From table 4.6, the respondents believed perform appraisal was done fairly and justly to a moderate extent (mean=3.36). Similarly, the respondents also agreed that the appraisal officer discussed performance with them to a moderate extent (mean=3.29). However, on the question of whether the feedback given by the respondents regarding their performance for the period was considered in the overall rating by the appraising officer, the respondents

agreed to a small extent (mean=1.95). The respondents were also asked whether the banks had in place sufficient mechanisms to address complaints when the appraising officer is unfair and biased. They indicated that such mechanisms were available to a very small extent (mean=1.46). Generally, the respondents indicated they were satisfied with how performance appraisal was done by their respective employers to a small extent.

The study established that performance evaluation was done fairly and justly to a moderate extent which is important as found by Simiyu (2012) who noted that this is integral in motivating staff. She goes ahead to state that there needs to be room for modification of flaws encountered during performance evaluation and this is justified by the findings that within commercial banks, there existed mechanisms to deal with biasness and unfairness to a very small extent. Evidently from the findings, there is need to improve performance evaluation in some areas which ties in with findings of Ng'ang'a et al (2013) who established that 84.8% HR practitioners indicated a need to improve performance appraisal system in their respective corporations.

4.4.3 Performance Development Programs and Employee Motivation.

First, the researcher sought to know the performance improvement programs used by their employers as support for poor performance. The respondents were requested to tick all performance improvement programs used by their employer.

Table 4. 7 Performance development programs

WHETHER PROGRAM IS IN USE	YES	NO
Performance improvement plans	88%	12%
Coaching	76%	24%
Mentorship	36%	64%
Training	64%	36%
Change of roles	19%	81%
Deployment to another work station	24%	76%
Other	31%	69%

Source: Survey data (2018)

From the table 4.7, it is evident that a number of performance improvement programs are used by commercial banks in Kenya. 88% indicated performance improvement plan with 76% indicating coaching is used. 64% of respondents indicated that training was used by

their employer. 36% indicated mentorship was used and 24% indicated deployment to another work station was used. 19% indicated change of roles was used, while 31% indicated other methods for performance improvement programs are used. Further, the respondents were asked whether they had been placed a performance improvement program. 19% of the respondents indicated they had been placed under performance improvement programs previously whereas 81% indicated they had not.

The researcher also sought to understand how the various performance improvement programs used by their employer effected employee motivation. The findings were as tabulated in table 4.8.

Table 4. 8 Performance development programs and employee motivation

	N	Min	Max	Mean	Std. Deviation
The performance development programs actually help me perform better	259	1	5	1.66	.890
Use of performance Development programs to help improve my performance is justified	259	1	5	1.86	1.110
I am satisfied with how performance development programs are administered and monitored	259	1	5	1.66	.886
There is sufficient support from my team leader when one is on a performance development program	259	1	5	1.65	.865
To what extent does the performance development programs used by your bank influence your commitment to the bank	259	1	5	1.27	.527
Valid N (listwise)	259				

Source: Survey data (2018)

The researcher sought to find out whether there existed a relationship between performance development programs and employee motivation. First, the researcher sought to find out whether the respondents believed the performance improvement programs helped them perform better. The respondents agreed with this statement to a small extent with a mean of 1.66. The respondents were also asked whether they believed that use of performance development programs to improve performance was justified and they agreed it was justified

to a small extent (mean= 1.86). When asked how satisfied they were with the process of administering and monitoring performance development programs, the respondents indicated they were satisfied to a small extent (mean=1.66). The researcher also sought to know whether the respondents believed that there was sufficient support from the team leader whenever one was on a performance development program(s) to which the respondents indicated that they did to a small extent (mean=1.65). Lastly, on the question of whether the performance improvement programs influenced their commitment to their employer, the respondents indicated it did to a very small extent with a mean of 1.27. The findings of the study points towards a negative perception on performance development program with respondents indicating being satisfied with these programs to a small extent. This position matches with Khan et al (2014) who stated that there was negative perception towards PIP which employers view as a tool used to question their work and given a stern course of action where if performance doesn't improve, their employment is terminated. Given that respondents indicated that PIP was commonly used as a performance development program, its contribution towards the prevailing attitude cannot be underscored. A view similar to Khan et al (2014) is put forth by Kamal Karanth who states that PIP is a notice to an employee to find another job. This view could in part explain why the respondents believed the performance development programs helped the perform better to a small extent since they are possibly viewed a notice to termination, or paper trail that leads to termination as stated by Khan et al (2014).

4.4.4 Reward and Employee Motivation.

On reward and motivation, the researcher first sought to know which rewards were applied by the commercial banks. The respondents were requested to tick all the rewards applied by their employer. The results were as in table 4.9.

Table 4. 9 Rewards used by commercial banks

Reward	Frequenc y	Percentag e
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Promotion	240	93%
Bonus	247	95%
Recognition letters awards	60	23%
Salary increment	243	94%
Holidays	6	2%
Others	64	25%

Source: Survey data (2018)

From the findings, 95% of the respondents indicated that bonus was used as a reward. Another 94% indicated salary increment and 93% that promotions were used as rewards. 25% indicated recognition letters/awards were used whereas only 2% indicated holidays were used. 25% indicated other forms of rewards were used. Upon establishing the forms of reward used by commercial banks, the research also sought to establish whether there existed a relationship between rewards and motivation. The results were as in table 4.10.

Table 4. 10 Descriptive statistics for rewards and employee motivation

	N	Min	Max	Mean	Std. Deviation
The rewards offered for good performance motivate me to perform highly	259	1	5	4.25	1.111
There is fairness and equity in rewards given for good performance	259	1	5	3.29	1.316
It is clear which rewards are associated with which level of performance rating	259	1	5	2.36	1.164
Rewards given match the effort used to achieve the level of performance being rewarded	259	1	5	1.74	.867
The rewards given influence my commitment to the bank	259	1	5	3.81	1.142
Valid N (listwise)	259				

Source: Survey data (2018)

From table 4.10, the respondents agreed that the rewards offered for good performance motivated them to perform highly to a great extent (mean=4.25). They also agreed to a moderate extent that there was fairness and equity in rewards given for good performance at a mean of 3.29. Regarding whether it was clear which rewards were associated with which

level of performance rating, the respondents indicated that the clarity was to a small extent (mean=2.36). The respondents were also asked whether the rewards given matched the effort used to achieve the level of performance being rewarded to which they indicated to a small extent at a mean of 1.74. Finally, the respondents were asked whether the rewards given influenced their commitment to their employer and they agreed to a great extent at a mean of 3.81. From the findings, it is evident that rewards is a great motivator with a mean of 4.25. This findings tie in with those of Njoroge (2011) who found that a majority 54.3% of the respondents indicated that reward affected motivation of the employee. Similarly, Kamao (2011) found that 68% of respondents confirmed that remuneration was a motivating factor for them which in turn led to increased productivity. The study also found that rewards had an influence on employee commitment to a great extent, a position which is in line with findings of World Bank (2010) in their study where 40% of the respondents indicated that base salary, base salary increases, benefits and perquisites had high or very high impact on employee engagement. Regarding standardized rewards, the study established that it was clear which reward was associated with what level of performance rating to a small extent, a position which matches findings of Kyambi (2012) who found that 40% of bank employees stated that there was no standard format of rewarding.

4.4.5 Employee Motivation.

The researcher sought to know the prevailing motivation levels of the respondents. To achieve, the researcher asked the respondents to rate their satisfaction levels with their job in general.

Table 4. 11 Employee job satisfaction

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Very small extent	32	12.4	12.4	12.4
Small extent	67	25.9	25.9	38.2
Moderate extent	63	24.3	24.3	62.5
Great extent	73	28.2	28.2	90.7

Very great extent	24	9.3	9.3	100.0
Total	259	100.0	100.0	

Source: Survey data (2018)

A majority 28.2% indicated being satisfied to a great extent with another 25.9% indicating being satisfied to a small extent. 24.3% indicated being satisfied to a moderate extent and 12.4% to a very small extent. Only 9.3% indicated being satisfied to a very great extent. The researcher also sought to know the length of time the respondents foresaw being with their employer.

Table 4. 12 Length of time respondents foresee working with current employer

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Not more than 2 years	64	24.7	24.7	24.7
2-5 years	93	35.9	35.9	60.6
5-10 years	87	33.6	33.6	94.2
Above 10 years	15	5.8	5.8	100.0
Total	259	100.0	100.0	

Source: Survey data (2018)

A majority 35.9% of the respondents indicated they foresaw working with their employer for between 2 to 5 years whereas another 33.6% foresaw working for 5 to 10 years. 24.7% indicate that they foresaw working with their current employer for not more than 2 years while only 5.8% foresaw working for more than 10 years with their current employer. Lastly, the researcher sought to find how the respondents had performed overall for the preceding three years. The findings were as tabulated in table 4.13.

Table 4. 13 Performance ratings for the preceding three years

Performance Rating Year	Exceptional	Very good/exceed expectation	Good/Met expectation	Needs improvement/Improvement required
2015	11%	31%	51%	7%
2016	11%	32%	50%	7%

2017	13%	25%	57%	6%
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Source: Survey data (2018)

From the table 4.13, it is evident that for year 2015, a majority 51% were rated as good/met expectation with another 31% being rated as very good/exceed expectation. 11% were rated exceptional whereas 7% were rated as needs improvement/improvement required. For the year 2016, 50% were rated as good/met expectation whereas 32% were rated as very good/exceed expectation. 11% were rated as exceptional while 7% were rated as needs improvement/improvement required. Finally for year 2017, 57% were rated as good/met expectation. 25% were rated a very good/exceed expectation while 13% were rated exceptional. 6% were rated needs improvement/improvement required. For all the three years, none of the respondents indicated to having been rated unsatisfactory/unacceptable.

4.4.5.1 Performance Contracting and Employee Motivation.

The researcher also sought to know the respondents' perception with regard to how performance contracting affected their motivation. The results were as in table 4.14:

Table 4. 14 Descriptive Statistics on performance contracting and employee motivation

	N	Minimum	Maximum	Mean	Std. Deviation
Performance contracting has enhanced my job satisfaction	259	1	5	2.59	1.310
Performance contracting has enhanced my commitment to my employer	259	1	5	2.32	1.173
Performance contracting has enabled me to perform better	259	1	5	2.47	1.166
Valid N (listwise)	259				

Source: Survey data (2018)

From the table 4.14, the respondents indicated that they were satisfied with PC as operationalized by their employers to a moderate extent. This however had little bearing on their commitment to their employer as they stated that PC influenced their commitment to a small extent. On whether PC enhanced their performance, the respondents indicated it did to

a small extent. This study found that PC improved employee performance as was found by Kipyego (2011) who found that 52% of the respondents indicated that PC improved performance at energy corporations to a very great extent. These findings are similar to those of Tarus (2012) who found that 80% of the respondents indicated that PC had improved their performance.

4.5 Diagnostic Test

The researcher undertook a multicollinearity test to diagnose whether there existed correlation among the variables.

4.5.1 Multi-collinearity Tests

The results of the multi-collinearity test were as in table 4.15:

Table 4. 15 Multi-collinearity

Variables		Target setting	Performance evaluation	Performance development	Rewards
Target setting	VIF		1.048	1.029	1.022
	Tolerance		.954	.972	.978
Performance evaluation	VIF	1.218		1.221	1.003
	Tolerance	.821		.819	.997
Performance development	VIF	1.351	1.379		1.025
	Tolerance	.740	.725		.976
Rewards	VIF	1.600	1.351	1.222	
	Tolerance	.625	.740	.818	

Source: Survey data (2018)

As per the results, all the VIFs are very low since they are less than 3. These values suggest that the coefficients are well estimated and therefore the variables are not highly correlated to each other thus no multicollinearity among the variables.

4.6 Inferential Analysis.

4.6.1 Multiple Regression

The results of the regression analysis are:

Table 4. 16 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.742 ^a	.550	.542	.95926

a. Predictors: (Constant), Rewards, target setting, performance development programs, performance evaluation

The R square value in the table above is 0.550 indicating that the independent variables in this study explain 55% of the variability of the dependent variable (motivation). This implies that over and above PC, there are other factors that are attributable to the 45% effect on employee motivation in the selected commercial banks.

Table 4. 17 ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	129.890	4	32.472	35.290	.000 ^b
	Residual	233.724	254	.920		
	Total	363.614	258			

b. Predictors: (Constant), Rewards, Target Setting, Performance development programs, performance evaluation

The table shows that the independent variables (target setting, performance development, performance evaluation, rewards) statistically significantly predict the dependent variable (motivation), $F(4, 254) = 35.290, p < .0005$.

Table 4. 18 Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.051	.296		-.171	.000
Target Setting	.120	.068	.113	1.772	.005
Performance evaluation	.073	.083	.052	.875	.018

Performance development programs	-.040	.096	-.023	-.418	.036
Rewards	.835	.074	.573	11.228	.000

Unstandardized coefficients indicate how much the dependent variable varies with an independent variable when all other independent variables are held constant. As shown in the table above, the variables are statistically significant in influencing motivation ($p < 0.05$).

Model equation

$$Y = -.051 + 0.120X_1 + 0.073X_2 - 0.040X_3 + 0.835X_4 + e$$

Where:

X_1 = Target setting

X_2 = Performance evaluation

X_3 = Performance development programs

X_4 = Reward

As shown in the equation, a unit increase in target setting will lead to 0.120 increase in motivation ($B=0.120$, $p=0.005$). Additionally, a unit increase in performance evaluation will lead to 0.073 increase in motivation ($B=0.073$, $p=0.018$). A unit increase in performance development will lead to 0.040 decrease in motivation ($B=-0.040$, $p=0.036$). Finally, a unit increase in rewards will lead to 0.835 increase in motivation ($B=0.835$, $p=0.000$).

From the results above, we conclude that rewards have the greatest influence on motivation followed by target setting the performance evaluation. Performance development on the other hand does not positively influence motivation.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary, conclusions and recommendations of the study. This study was undertaken with the objective of establishing whether there exists a relationship between performance contracting and employee motivation in selected commercial banks in Kenya. Specifically, the study sought was to investigate, in the selected commercial banks in Kenya, what effect target setting had on employee motivation; to establish the effect of performance evaluation on employee motivation; to investigate how performance development programs affect employee motivation and to find out the influence of rewards on employee motivation.

5.2 Summary of the Findings

A summary of the findings for each of the variables was as below

5.2.1 Target Setting and Employee Motivation

The study set out to find out the effect of target setting on employee motivation in commercial banks in Kenya. The results of the study established that there existed a statistically significant relationship between target setting and employee motivation at $p=0.005$. A unit increase in target setting resulted in a 0.120 increase in motivation ($B=0.120$). Generally, the respondents opined that their involvement on target setting to a small extent. They also indicated that the targets were realistic and achievable to a small extent, at a mean of 2.31. Further, they stated that they were satisfied with the process used to a small extent. Equally, the respondents indicated that they were committed towards achieving the set targets to a small extent.

5.2.2 Performance Evaluation and Employee Motivation

The study also set out to find out the effect of performance evaluation had on employee motivation in commercial banks in Kenya. From the results of the study, it was clear that that there existed a statistically significant relationship between performance evaluation and employee motivation at $p=0.018$. A unit increase in performance evaluation results in 0.073 increase in employee motivation ($B=0.073$). Generally, the respondents indicated that they believed performance appraisal was done fairly and justly at a mean of 3.36. They also indicated that their appraising officer discussed their performance with them at a mean of

3.29. However regarding whether feedback on their performance had a bearing on the overall rating for the year, they agreed that it did to a very small extent at a mean of 1.95. Further, the respondents indicated that there weren't sufficient mechanisms to address complaints when the appraising officer is unfair and biased in evaluation at a mean of 1.46. The respondents indicated that generally, they were satisfied with how performance evaluation was done at the banks they worked for to a small extent, with a mean of 2.20.

5.2.3 Performance Development Programs and Employee Motivation

First, the researcher sought to know the performance development programs used by the banks and how their use impacted on the employee motivation. Performance improvement plans (PIP), coaching and training stood out as the most frequently used performance development programs at 88%, 76% and 64% respectively. On the question of whether the performance development programs had an effect on employee motivation, the study revealed that there exists a statistically significant relationship between performance development programs and employee motivation at $p=0.36$. However, this relationship is negative in that a unit increase in use of performance development programs results in a decrease in employee motivation by 0.40 ($B=-0.40$). This is clearly demonstrated from the results of the study. The respondents indicated that they believed performance development programs actually helped them perform better to a very small extent, at a mean of 1.46. Regarding whether they believed that use of performance development programs by the bank was justified, the respondents indicated that it was justified to a very small extent at a mean of 1.86. As pertains to how the performance development programs were administered and monitored, the respondents indicated that they were satisfied with how these programs were administered and monitored to a very small extent with a mean of 1.66. The respondents were also asked whether the team leaders provided sufficient support to staff on performance development program to which the respondents indicated to a very small extent at a mean of 1.65. Finally, the researcher sought to find out whether the performance development programs used by the bank they worked for influenced their commitment to their employer. The respondents indicated it did to a very small extent at a mean of 1.27.

5.2.4 Reward and Employee Motivation

The respondents indicated that the commonly used rewards by the banks were bonus, salary increment and promotion at 95%, 94% and 93% respectively. The study revealed that rewards were statistically significant in affecting employee motivation at $p=0.000$. Rewards

stood out as having the greatest influence on motivation at $B = 0.835$, meaning a unit increase in reward results in a 0.835 increase in employee motivation. Generally, the respondents indicated that the rewards offered for good performance motivated them to perform highly to a great extent at a mean of 4.25. Regarding whether there was fairness and equity in the rewards given, the respondents indicated that there was to a moderate extent with a mean of 3.29. However, on the question of whether there was clarity on which rewards were associated with which level of performance rating, the respondents indicated there was to a small extent with a mean of 2.36. The respondents were also asked whether the rewards offered matched the effort used to achieve the level of performance rewarded, to which they indicated it did to a small extent at a mean 1.74. Further, the respondents indicated that rewards influenced their commitment to the bank to a great extent at mean of 3.81.

5.2.5 Performance Contracting and motivation.

The respondents indicated that PC affected their commitment to a small extent (mean=2.32). This indicates that PC has a considerably influence on employee commitment thus if used well, it can be a great tool for staff retention. This is critical considering that a majority 35.9% of the respondents indicated they foresaw working with their current employer for between 2-5 years, 33.6% between 5-10 years and 24.7% less than 2 years. 5.8% indicated that they foresaw working with their current employer for over 10 years. This is a reflection of their motivational levels. The respondents also indicated that they were satisfied with how PC has been operationalized by their employers to a moderate extent (mean=2.59). With regard to overall satisfaction, a majority 28.2% indicated they were satisfied to a great extent, 25.9% to a small extent and 24.3% to a moderate extent. 12.4% were satisfied to a great extent and only 9.3% to a very great extent. Whereas a slight majority are satisfied to a great extent, at least a quarter are satisfied to a small extent which is significant figure which prompt remedial action.

Finally, the respondents indicated that PC had an effect on their performance to a small extent (mean=2.47). This is reflected in their overall performance. For the years 2015, 2016 and 2017, a majority of the respondents were rated good/met expectations at 51%, 50% and 5% respectively. Those rated very good/ exceed expectations or those three years were 31%, 32% and 25% respectively. Those rated exceptional were 11%, 11% and 13% respectively. And lastly those rated needs improvement/ improvement required were 7%, 7% and 6% respectively. The fact that a significant majority of the respondents were rated met expectations/ good, there is room to look at how to get more employee achieving better

performance. The focus here would be enablers for more motivation and better performance like targets and the target setting process, performance evaluation among others.

5.3 Conclusions

From the findings as presented and explanations offered, it is evident that performance contracting does affect employee motivation to a level of 55% meaning that the PC framework should be directed at ensuring high overall motivational levels of employees. As pertains the first objective, target setting had a positive relationship with employee motivation at a significance level of $p=0.005$ ($p<0.05$) with influence on employee motivation at $B=0.120$. Performance evaluation equally had a positive relationship on employee motivation at significance level of $p=0.018$ ($p<0.05$) with influence on employee motivation at $B=0.73$. Performance development programs had a negative relationship with employee motivation at a significance of $p=0.36$ ($p<0.05$) with $B= -0.40$. Finally rewards had a positive relationship with employee motivation with a significance of $p=0.000$ ($p<0.05$) with $B=0.835$. Based on this, the researcher concludes that improving aspects of target setting, performance evaluation and rewarding employees positively influences motivation of the employees whereas performance development programs demotivates employees. This therefore implies there is need to relook at choice of these programs, their administration and monitoring, and find motivators which enable change of employees' perception on these programs and improve their efficacy in improving performance.

5.4 Recommendations.

The findings of this study will play an important role in policy formulation and HR practice as pertains to performance contracting in motivating employees within commercial banks in Kenya. Efficacy of performance contracting in improving employee motivation starts with how targets for the performance period are set. It is important to involve employee in target setting for ownership of targets as well as improving commitment towards achieving them. Employee involvement in target setting also decreases the perception of targets being unrealistic and unachievable thus employees are more motivated to achieve the targets.

Performance evaluation plays a critical role as pertains to performance contracting and employee motivation. Whereas there is little evidence of bias, partiality and unjust evaluation by team leaders, there will be more comfort to employee if they knew there are sufficient mechanisms to handle any cases of impartiality, bias and unjust evaluation. Further, performance discussions during evaluation ought to go beyond being just a discussion. Where

justified, feedback on performance ought to have a bearing on final rating. This feedback should also have bearing on the targets set for the next performance period.

Whereas performance development programs have good intentions of improving performance, their use have opposite effect on employee motivation. There is need to structure performance development programs chronologically in a way that more “friendlier” programs are used at the beginning of the performance remediation. Since the commonly used programs are PIP, coaching and training, coaching and training could be also at the beginning of the performance improvement journey and PIP only used when no change in attitude and performance is noted from the employee. This should improve the perception of these programs by employee. There ought to be a lot of support by team leaders to employees on performance development programs to navigate through any challenges affecting performance whether personal or job related. Change of roles though not frequently used could also be an option especially where the role in which the employee is performing well does not match the employee’s strength and/or desire. There will be value in rewarding employees to perform exceedingly well while on performance development programs as a motivator. Reward has been evidenced by the study to be biggest motivator to employees.

Rewards are greatest source of motivation for performance and employee commitment. The more the rewards, the higher the performance and commitment. Commercial banks should endeavor to offer very high rewards for exceptional performance as motivation for employees to attain exceptional results. This is based on employees’ feedback that the rewards given even though their biggest source of motivation, do not match the effort spend to achieve the results being rewarded. These rewards should also be clearly mapped to certain performance ratings and made known to all employees to give a clear picture of what lays ahead should they achieve certain performance metrics. This should give employee the drive to performance in anticipation of the reward that comes with it.

5.4.2 Suggestion for further study.

This study sought to establish whether there existed a relationship between performance contracting and employee motivation in commercial banks in Kenya. The study established that PC affected employee motivation by 55%. The researcher suggest further study to understand which other factors affect employee motivation over and above PC. Further to this, there is room to study whether effect of PC on employee motivation affects employees differently based on employee demographics like age, gender, length of service with their

current employer among others. Despite this study collecting these data, the information was not specifically utilized to coming up with the findings and conclusions of this study. The researcher also recommends further study into why and how to turn around performance development programs to positively influencing employee motivation. Further to this, study into use, administration and monitoring of PIP that positively influences employee motivation since it has been widely adopted by commercial banks and significantly accounts for the negative relationship between performance development programs with employee motivation.

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APPENDICES

APPENDIX I: INTRODUCTORY LETTER PROSPECTIVE STUDY RESPONDENTS

Dear sir/madam,

My name is Austin Michel Otieka, a graduate student at Kenyatta University studying Master of Business Administration –Human Resource Management. I am conducting a research for my dissertation on: **Performance contracting and employee motivation in selected commercial banks in Nairobi City County, Kenya**. I hereby request you to support me with this research by filling out the questionnaire below.

I will treat all information provided with utmost confidentiality, and will strictly use that information for purposes of this research only. Participation in this research is completely voluntary, and kindly note that there will not be any compensation for doing so. Should you choose to accept this invitation, kindly answer all questions with complete honesty. The

findings of the research will ultimately help improve how performance contracting is done in this company and ultimately performance of both the employee and the company as a whole. Thank you for supporting me in my educational endeavors, as well as generation of new knowledge for benefit of the industry and academy.

Regards,

.....

Austin Michel Otieka
The Researcher/ Student

APPENDIX II: QUESTIONNAIRE

PART ONE: RESPONDENT'S PROFILE

Kindly tick your responses in the brackets

1. What is your gender?
Male ()
Female ()
2. What is your age?
Between 20-27 years old ()
28-33years old ()
34-40 years old ()
Above 40 years old ()
3. How long have you worked with your current employer?
Less than 3 years ()
4-7 years ()
7-10 years ()
Above 10 years ()

PART TWO: TARGET SETTING AND EMPLOYEE MOTIVATION

Rate appropriately to which extent you are in agreement with the statements below on how setting of performance targets is done in your bank, using the following scale:

5 = Very great extent, 4 = Great extent, 3 = moderate extent, 2 = Small extent and 1= Very small extent

Tick in the corresponding box

STATEMENT	1	2	3	4	5
The banks seeks your input when setting your targets					

The targets set are clear and measurable					
The targets are realistic and achievable					
To what extent are you satisfied with the process used to set targets					
To what extent are you committed to achieving the targets					
To what extent do you believe you can perform exceedingly against the targets set?					

PART THREE: PERFORMANCE EVALUATION AND EMPLOYEE MOTIVATION

Rate appropriately to which extent you are in agreement with the statements below on how performance appraisal is done in your bank, using the following scale:

5 = Very great extent, 4 = Great extent, 3 = moderate extent, 2 = Small extent and 1= Very small extent

Tick in the corresponding box

STATEMENT	1	2	3	4	5
I believe the performance evaluation is done fairly and justly					
My appraising officer discusses with me my performance for period					
My feedback about regarding my performance for the period is considered in my overall rating by the appraising officer					
There are sufficient mechanisms in place to address my complains when my appraising officer is unfair and biased					
I am satisfied with how performance appraisal is done by my employer					

PART THREE: PERFORMANCE DEVELOPMENT PROGRAMS AND EMPLOYEE MOTIVATION

Performance development programs are those programs put in place to enable an employee improve their performance when one is performing below expected standards.

1. Tick all programs among those below used to improve performance by your bank.
 - a) Performance improvement programs (PIP) ()
 - b) Coaching ()

- c) Mentorship ()
- d) Training ()
- e) Change of roles ()
- f) Deployment to another work station ()
- g) Other ()

2. Rate appropriately to which extent you are in agreement with the statements below on programs put in place to help improve performance in your bank, using the following scale:

5 = Very great extent, 4 = Great extent, 3 = moderate extent, 2 = Small extent and 1= Very small extent. Tick in the corresponding box

STATEMENT	1	2	3	4	5
The performance development programs actually help me perform better					
Use of performance development programs to help improve my performance is justified					
I am satisfied with how performance development programs are administered and monitored					
There is sufficient support from my team leader when one is on a performance development program(s)					
To what extent does the performance development programs used by your bank influence your commitment to the bank					

PART FOUR: REWARD AND EMPLOYEE MOTIVATION

1. Tick all rewards your bank gives for good performance

- a) Promotion ()
- b) Bonuses ()
- c) Recognition letters/awards ()
- d) Salary increment ()
- e) Holidays ()
- f) Other ()

2. Rate appropriately to which extent you are agreement with the statements below on programs put in place to help improve performance in your bank, using the following scale:

5 = Very great extent, 4 = Great extent, 3 = moderate extent, 2 = Small extent and 1= Very small extent

Tick in the corresponding box

STATEMENT	1	2	3	4	5
The rewards offered for good performance motivate me to perform highly					
There is fairness and equity in rewards given for good performance					
It is clear which rewards is associated with which level of performance					
Rewards given match the effort used to achieve the level of performance being rewarded					
The rewards given influence my commitment to the bank					

PART 5: EMPLOYEE MOTIVATION.

- a) Rate appropriately to which extent you are agreement with the statements below on effect of performance contracting on your motivation, using the following scale:

5 = Very great extent, 4 = Great extent, 3 = moderate extent, 2 = Small extent and 1= Very small extent

Tick in the corresponding box

STATEMENT	1	2	3	4	5
Performance contracting has enhanced my job satisfaction					
Performance contracting has enhanced my commitment to my employer					
Performance contracting has enabled me to perform better					

- b) How would you rate to which extent you are satisfied with your job in general**

- Very great extent ()
- Great extent ()
- Moderate extent ()
- Small extent ()

Very small extent ()

c) How long do you foresee yourself working for your current employer?

Not more than 2 years ()

2 to 5 years ()

5 to 10 years ()

More than 10 years ()

d) What was your overall end of year performance rating over the last three years

RATING	2015	2016	2017
Exceptional			
Exceed expectation/ Very good			
Met expectation/ Good			
Needs improvement/ Improvement Required			
Unsatisfactory / unacceptable			



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Internal Memo

FROM: Dean, Graduate School

DATE: 5th June, 2018

TO: Otieka Austin Michel
C/o Human Resource Management Dept.

REF: D53/CTY/PT/20893/2012

SUBJECT: APPROVAL OF RESEARCH PROJECT PROPOSAL

This is to inform you that Graduate School Board at its meeting of 30th May, 2018 approved your Research Project Proposal for the M.B.A Degree Entitled, "Performance Contracting and Employee Motivation in Selected Commercial Banks in Kenya".

You may now proceed with your Data Collection, Subject to Clearance with Director General, National Commission for Science, Technology and Innovation.

As you embark on your data collection, please note that you will be required to submit to Graduate School completed Supervision Tracking Forms per semester. The form has been developed to replace the Progress Report Forms. The Supervision Tracking Forms are available at the University's Website under Graduate School webpage downloads.

Thank you.


ANNBELL MWANIKI
FOR: DEAN, GRADUATE SCHOOL

c.c. Chairman, Human Resource Management Department.

Supervisors:

1. Dr. Priscilla W. Ndegwa
C/o Department of Business Administration
Kenyatta University

HI/lmn



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NAIROBI-KENYA

18

Ref. No. **NACOSTI/P/18/22272/25797**

Date: **18th October, 2018**

Austin Michel Otioka
Kenyatta University
P.O Box 43844-00100
NAIROBI

RE: RESEARCH AUTHORIZATION

Following your application for authority to carry out research on *“Performance Contracting and employee motivation in selected Commercial Banks in Kenya”* I am pleased to inform you that you have been authorized to undertake research in **Nairobi County** for the period ending **18th October, 2019**.

You are advised to report to **the Chief Executive Officers of selected Commercial Banks, the County Commissioner and the County Director of Education, Nairobi County** before embarking on the research project.

Kindly note that, as an applicant who has been licensed under the Science, Technology and Innovation Act, 2013 to conduct research in Kenya, you shall deposit **a copy** of the final research report to the Commission within **one year** of completion. The soft copy of the same should be submitted through the Online Research Information System.


BONIFACE WANYAMA
FOR: DIRECTOR-GENERAL/CEO

Copy to:

The Chief Executive Officers
Selected Commercial Banks.

The County Commissioner
Nairobi County.

The County Director of Education
Nairobi County.

THE SCIENCE, TECHNOLOGY AND INNOVATION ACT, 2013

Department of Research Licenses is guided by the Science, Technology and Innovation (Research Licensing) Regulations, 2014.

CONDITIONS

License is valid for the proposed research, location and duration of the research period.

License and any rights thereunder are non-transferable.

Licensee shall inform the County Governor before commencement of the research.

Exportation, filming and collection of specimens are subject to obtaining their necessary clearance from relevant Government Agencies.

License does not give authority to transfer research materials.

COSTI may monitor and evaluate the licensed research project.

Licensee shall submit one hard copy and upload a soft copy of their final report within one year of completion of the research.

COSTI reserves the right to modify the conditions of the license including cancellation without prior notice.

National Commission for Science, Technology and Innovation

P.O. Box 30623 - 00100, Nairobi, Kenya

TEL: 020 400 7000, 0713 788787, 0735 404245

Email: dg@nacosti.go.ke, registry@nacosti.go.ke

Website: www.nacosti.go.ke



REPUBLIC OF KENYA



National Commission for Science,
Technology and Innovation

RESEARCH LICENSE

Serial No.A 21375

CONDITIONS: see back page

**THIS IS TO CERTIFY THAT:
MR. AUSTIN MICHEL OTIEKA
of KENYATTA UNIVERSITY, 252-515
NAIROBI, has been permitted to conduct
research in Nairobi County**

**Permit No : NACOSTI/P/18/22272/25797
Date Of Issue : 18th October,2018
Fee Recieved :Ksh 1000**

**on the topic: PERFORMANCE
CONTRACTING AND EMPLOYEE
MOTIVATION IN SELECTED COMMERCIAL
BANKS IN KENYA**

**for the period ending:
18th October,2019**




.....
**Applicant's
Signature**


.....
**Director General
National Commission for Science,
Technology & Innovation**