



Research Article

Linkage between Target Setting in Performance Contracting and Employee Performance. A Kenyan Perspective

Robert Ong'eta Kinanga and Samuel Kimnyak Partoip

Maasai Mara University, Kenya

Correspondence should be addressed to: Robert Ong'eta Kinanga; rongeta@yahoo.com

Received 4 February 2013; Accepted 27 May 2013; Published 27 July 2013

Copyright © 2013 Robert Ong'eta Kinanga and Samuel Kimnyak Partoip. Distributed under Creative Commons CC-BY 3.0

Abstract

The current problem facing Performance Contracting (PC) in Kenyan public enterprises has been attributed to the failure of organizations to cascade the concept to individual employee level, leading to a discrepancy between the results of PC and the reality on the ground. The purpose of this study was to examine the effect of performance target setting in performance contracting on Kenyan Public Enterprises Employees Performance. The study used the descriptive survey design to collect the views and opinions of respondents working in KENGEN (Okaria) in Naivasha. The target population was 600 in which 235 respondents was the sample for the study. Presentation of data used descriptive statistics such as frequencies and percentages and inferential statistics used were using Pearson correlation coefficient and linear regression technique. Particularly, the correlation analysis was undertaken to test the hypotheses of the study. The findings established that there was a strong positive correlation between performance target setting and employee performance. The null hypothesis that there is no correlation between performance target setting and employee performance was rejected. The study concluded that performance contracting had a strong positive effect on employee performance in public enterprises in Kenya and thus need to ensure performance target setting is well organized and planned. From the findings the study recommended that performance target setting in performance contracting be expanded to cover all areas of the organization and be cascaded to all employees of the organization and that evaluation be linked to some incentive system so that performance can be sustained.

Keywords: Performance target setting, Performance Contracting, Kenyan Public Enterprises, Employee Performance.

Introduction

The introduction of performance contracting in most organizations in Africa has been on the rise in both private and public enterprises. This has been noted by a number

of scholars for example Martin (2005) noted that the implementation of performance based contracting ranges from state-wide, agency wide, to only within specific agency divisions or programs and that its impacts in each state agency varied, but including

Cite this Article as: Robert Ong'eta Kinanga and Samuel Kimnyak Partoip (2013), "Linkage between Target Setting in Performance Contracting and Employee Performance. A Kenyan Perspective," *Journal of Human Resources Management Research*, Vol. 2013 (2013), Article ID 162613, DOI: 10.5171/2013. 162613

increased accountability for service delivery and deliverables, and increased partnership between the contractor community and the state agency. The study further indicates that states agencies had defined performance as deliverables, outputs, outcomes, and effectiveness and efficiency, among others. The performance deliverables are organic to the organization, meaning they are developed within though they are negotiated externally. Previous studies on PC have only taken into consideration organizations performance as wholes leaving the effect of PC on individual employees' performance largely undocumented.

In the Kenyan context a performance contract is a written agreement between government and a state agency (local authority, state corporation or central government ministry) delivering services to the public, wherein quantifiable targets are explicitly specified for a period of one financial year (July to June) and performance measured against agreed targets ((GoK, 2006, Obong'o, 2009). he further noted that, it was expected that the adoption of result based management (RBM) within the public service would enable each ministry/department and public service organizations come up with clear performance objectives in line with the Economic Recovery Strategy for Wealth and Employment Creation (ERSWEC) targets, delineate the activities to help in the achievement of such objectives and determine the roles to be played by each individual staff member involved in the service delivery process. The identification of roles played by each member of staff as indicated by Obong'o provides the employees a distinct opportunity in achievement of organizational objectives, this intern will provide employees with the motivation to perform because they own the objectives of the organization.

The process of identifying performance targets is carried out after the budget process has been completed and institutions informed about their resource allocation

(Trivedi, 2007). This ensures that targets are realistic and achievable within the available resources. The targets emanate from the institutions and are freely negotiated and not imposed arbitrarily by the government. At the organizational level a staff member and manager agree on the work and responsibilities of the staff member's position. The plan will also set out how the staff members' performance will be measured or evaluated against set objectives (Akaranga, 2008).

Further, Grapinet (1999) argues the challenge experienced PC in most organizations is that, members of staff are not sufficiently involved in drawing up contracts, a task which in spite of exhortations from central government is still largely the preserve of managers. A study by Messah & Kariuki (2011) revealed that, fifty nine percent (59%) of employees were not involved in setting performance contract targets, and 41% only were involved. They however argue that their findings confirm that low levels of academic qualifications resulted to less number of employees been involved in setting targets.

In management terms, this means that performance goals are all too often perceived as being imposed from above rather than from a collective thought process. For performance contract to effectively have impact on employee performance, managers must be willing to involve members of staff in development of yearly performance objectives. This study intends to find out whether the challenges of PC as expressed by Grappinet have been overcome by public enterprises and the effect of Performance target setting on employee performance.

Additionally, LOG Associates(2010) argue that the question of what extent do performance contracts contain realistic, achievable targets and support "stretch goals", vis a vis the extent to which target setting is a self-fulfilling process (choosing low hanging fruit)?need to be addressed.

This means that organizations must protect themselves against the danger of settings targets that are too low just to score highly, but rather chose performance targets that are challenging that have a bearing on the prosperity of the organization.

Research Methodology

The study adopted a descriptive survey design as it was considered suitable for it provides accurate descriptive analysis of characteristics of the sample from the population (Mugenda, 2008). Similarly, this design was effective to this study because data was collected from a larger group of respondents involving description of the actual experiences, perceptions and attitudes of the respondents in the actual work environment. The design was expected to deepen the understanding of the effect of performance contracting on the performance of the employees from their own point of view (Kasomo, 2006).

The method of data collection entailed semi-structured questionnaire. The population sampled involved 600 members of staff of Kenya Electricity Generating Company (Olkaria), using the sample size tables developed by Bartlett, Kotlik and Higgins (2001) a sample of 235 was picked for the study, stratified simple random sampling was used to pick respondents for the study. The six departments formed the strata and random sampling was carried out within the strata. The response rate was 96 % (226 questionnaires), 15 were discarded for incompleteness and 211 were coded and entered into the statistical package SPSS for analysis. Data was tabulated using frequencies and percentages. Pearson Correlation Coefficient was used to test the following hypothesis of the study.

H₀: There is no significant correlation between performance target setting and employee performance

H₁: There is a significant correlation between performance target setting and employee performance

Hauke & Kossowski (2011), Pearson's correlation coefficient is a measure most useful when a researcher might be willing to investigate the strength of the linear relationship between two such variables.

Linear Regression analysis was used to analyze the effect of performance target setting on employee performance. Snelgar et al (2012) contends that Linear Regression is important where one variable is predicted on the basis of several another variable, particularly they say that the method is also suitable when predictor variables selected are measured on a ratio, interval, or ordinal scale. Further, they argue that more than one predictor variable is useful when predicting human behaviour, as our actions, thoughts and emotions are all likely to be influenced by some combination of several factors.

Research Findings and Discussions

In order to establish whether performance target setting had an effect on employee performance various statements were formulated to define the work situation in relation to performance contracting. The results were presented in Table 1

From the results it was clear that majority of the respondents 185(87.7%) agreed that the organization is under PC with the government. Similarly (185)87.7% of the respondents agreed that they understood their departmental PC targets while (187)88.7% of respondents agreed that they had specific performance targets set between them and their supervisors. This meant that PC had been mainstreamed in the organization, employees were aware of what is expected of them and information about the PC concept is properly understood by a majority of the employees in the organization.

Table 1: Respondents Opinions on Performance Target Setting

	SD		D		NS		A		SA	
	F	%	F	%	F	%	F	%	F	%
This organization is under performance contract with the government	12	5.7	4	1.9	10	4.7	75	35.5	110	52.1
Employees understand their departmental targets under performance contract.	8	3.8	7	3.3	13	6.2	90	42.7	93	44.1
There are specific performance targets set between employees and their superiors in line with the organizations performance contract	8	3.8	13	6.2	3	1.4	90	42.7	97	46
Managers involve employees they supervise in setting of performance targets	32	15.2	0	0	0	0	128	60.7	51	24.2
Performance targets to be achieved by the employee are negotiated and agreed upon between the employee and his/her manager	30	14.5	0	0	0	0	128	60.7	53	25.2
Employees consider performance targets set as achievable	8	3.8	8	3.8	18	8.5	111	52.6	66	31.3
Employees' personal development objectives are negotiated with their Managers.	10	4.7	7	3.3	17	8.1	112	53.1	65	30.8
The performance targets set have a link with employee performance	32	15.2	0	0	0	0	128	60.7	51	24.2
Performance target setting has enhanced employee performance.	20	9.5	10	4.7	11	5.2	96	45.5	74	35.1

It was however evident that not all employees were aware of the existence of PC or had targets in the PC as was demonstrated by the 16 (7.5%) who disagreed that the organization was under performance contract and 21(10%) who disagreed with the notion that there were performance targets set between them and their supervisors.

Majority of Respondents 179 (84.8%) agreed with the notion that they were involved in setting PC targets and the targets were negotiated between them and their supervisors; this meant that the target setting was a consultative process where

employees, their supervisors and managers were actively involved. This finding was similar to that of Messah & Kariuki (2011) who found out in their study that 41% of respondents agreed that they were involved in setting PC targets. In the same vein 178 (84.4%) of respondents agreed with the notion that PC had a link with EP, this implied that PC is largely considered by employees as having a positive impact on their performance, this was further confirmed by a response of (170) 80.6% who agreed that PC had enhanced EP. On average it was noted that majority of the respondents 179 (84.8%) agreed with most of the statements that indicated that performance

contracting targets had an effect on the performance of the employees. This gives an early indication that the performance of the employees in the organization is influenced by the performance contracting targets that are set, This position was supported by Trivedi (2007) who argues that the voluntarily agreed upon targets at the beginning of the contract period have a bearing on performance at the end of the contract period.

The responses from the open ended question in the questionnaire showed that most of the

respondents observed that the main challenge was that, PC generally was not covering all areas of operation in the organization. They were therefore of the opinion that PC be expanded to cover all areas of the organization in order to provide for maximum results.

To establish the effect of target setting on employee performance the respondents were asked to respond to the following questions.

Table 2: Response on the Effect of PT on EP

Statement	SD		D		SN		A		SA	
	F	%	F	%	F	%	F	%	F	%
Target setting affects employee performance	12	5.7	4	1.9	10	4.7	75	35.5	110	52.1
Performance target setting contracting has led to increased output	19	9	10	4.7	11	5.2	97	46	76	35.1
Performance target setting enhances increased efficiency and effectiveness among the employees	2	0.9	9	4.3	35	16.6	83	39.3	82	38.9
Target setting enhances increased goal achievement	16	7.6	11	5.2	13	6.2	92	43.6	79	37.4
Performance contracting leads to cost reduction	0	0	4	1.9	24	11.4	119	56.4	64	30.3
Performance contracting increases productivity	19	9	10	4.7	11	5.2	97	46	74	35.1
Performance contracting enhances increased innovation	17	8.1	22	10.4	20	9.5	103	48.8	49	23.2

From the results in table 2 it was shown that majority of the respondents agreed that there was a relationship between performance target setting and employee performance with a response rate of 185 (87.7%).

It was noted that majority 171 (81%) noted that Performance target setting increases employees output and goal achievement, 165 (78.2%) noted Performance target setting enhanced efficiency and effectiveness among employees, 183(86.8%) noted that target

setting enhances increased cost reduction, 152 (72%) noted that PC had enhanced innovation, while 173 (82.5%) indicated that Performance target setting has led to increased productivity.

Correlation analysis was carried to test hypothesis;

H₀. There is no significant correlation between performance target setting and employee performance

H₁: There is a significant correlation between performance target setting and employee performance

The results of the correlation analysis were presented in table 3, responses under each variable were aggregated and correlated as performance target setting (PT) and employee performance (EP).

Table 3: Correlations between PT and EP

Correlations			
		PT	EP
PT	Pearson Correlation	1	.619**
	Sig. (2-tailed)		.000
	N	211	211
EP	Pearson Correlation	.619**	1
	Sig. (2-tailed)	.000	
	N	211	211

** . Correlation is significant at the 0.01 level (2-tailed).

Results of the correlation analysis showed that there was a significant relationship between performance target setting and employee performance (see table 3 above). When PT (representing the transformed variable of Performance target setting) was correlated with EP (Transformed variable representing employee performance) the resulting correlation coefficient was 0.619 with a p-value of 0.000. The direction of the correlation coefficient as can be seen was positive and very significant. This indicated that there was a strong positive association between target setting and employee performance, and thus we reject the null hypothesis that there is no significant relationship between performance target

setting and employee performance and accept the alternative hypothesis. The results of the correlation analysis, closely mirrors the results of opinions of respondents who in sum seem to agree that indeed target setting is a critical component of the PC. These findings were similar to Messah & Kariuki (2011) who in their study indicate that target setting indeed improved employee performance.

In order to measure the effect of the variable performance target setting on employee performance regression analysis was carried out. Results were presented in the tables 4, 5 and 6.

Table 4: Model Summary for Regression between PT and EP

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.619 ^a	.383	.380	.53038

a. Predictors: (Constant), PT

Table 5: ANOVA for PT and EP

ANOVA ^b						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	36.517	1	36.517	129.812	.000 ^a
	Residual	58.793	209	.281		
	Total	95.310	210			
a. Predictors: (Constant), PT						
b. Dependent Variable: EP						

As shown in the model summary in table 4, the R² value for the regression between PT and EP was 0.38 (38%). Looking at the ANOVA in table 5 above F=129.812 and the p-value was 0.000. Given the p-value of the F

statistic which as can be seen was very small we conclude that the R² value of 38% was statistically significant. We can therefore say that 38% of the effect on dependent variable can be explained by the dependent variables.

Table 6: Coefficients for Regression between PT and EP

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.395	.232		6.007	.000
	PT	.653	.057	.619	11.393	.000
a. Dependent Variable: EP						

From the table of coefficients above we can develop a model that explains the relationship between the two variables (EP and PT). The general linear model defining the relationship between two variables is $Y = a + bX + e$ where Y ; is the dependent variable, a ; is the intercept and e ; the error. Replacing these values from the table of coefficients above, the linear model between the variables becomes

$$EP = 1.395 + 0.653PT + 0.289$$

Conclusions

The results show that there was a high degree of awareness of the performance contracting among the employees of the company in terms of performance target settling. Besides, the respondents indicating that they were aware that the organization was under performance contracting with the government, majority agreed that they

understood their departmental PC targets and they had specific performance targets set between them and their supervisors. This meant that PC had been mainstreamed in the organization, employees were aware of what was expected of them and information and the PC concept is properly understood by a majority of the employees in the organization.

Majority of Respondents noted that PC was largely considered as having a positive impact on their performance. This meant that from their perspective, employees felt that their performance had been influenced by the performance contracting targets that were set, this was in line with the findings of Trivedi (2007) who noted that setting of performance objectives/targets had made public officers focus on meeting organizational goals improving individual and employee performance,

The findings contradicted the assertions of Grappinet (1999) who argued in his study that members of staff were not involved in drawing up contracts, rather the results of this study showed that members of staff are sufficiently involved in setting up performance targets and therefore boosting their own yearly performance. The results also were a reflection of findings of Akaranga (2008) who noted that, since the formal implementation of performance contracts in Kenya from 2004 there has been evidence of improvement in income generation over expenditure in government ministries.

Generally there was a significant strong positive correlation between performance target setting and employee performance; regression analysis showed that target setting was a valuable component of performance contracting and that, there was a linear relationship between target setting and employee performance. The implication of these analyses was that performance target setting had a positive effect on employee performance of public organizations such as KENGEN. The study revealed that performance target setting was very critical components of the PC and they have a bearing on what was achieved at the end of the contract period.

Recommendations

1. The study established performance target setting was a very critical component of the PC and has a strong effect on performance. It was recommended therefore that target setting be expanded to cover all operation and departments of the organization, so that PC covers the whole organization for maximum output.
2. The study further recommends that all employees be involved in setting performance targets with their supervisors to allow PC to be cascaded to the lowest level in the organization. This will focus all members of staff to

organizational objectives and thus increase employee output.

References

Akaranga, E. M. (2008). 'The Process and Effects of Performance Contracting in Kenyan Public Sector,' *United States International University (USIU)*, Nairobi. Retrieved from: <http://www.aibuma.org/proceedings/downloads/Akaranga,%20Kenya.pdf>

Brace, N., Snelgar, R. S. & Kemp, R. (2012). *SPSS for Psychologists*, Fifth Edition. *Routledge Academic*, UK

GOK, (2006). 'Results for Kenyans: Capacity Building Programme for Transforming the Public Service,' *Public Service Reform and Development Secretariat*.

Hauke, J. & Kossowski, T. (2011). 'Comparison of Values of Pearson's and Spearman's Correlation Coefficient on the Same Sets of Data,' *Quaestiones Geographicae* 30(2), *Bogucki Wydawnictwo Naukowe, Poznań* 2011, pp. 87-93, 3 figs, 1 table. DOI 10.2478/v10117-011-0021-1, ISBN 978-83-62662-62-3, ISSN 0137-477X.

Kasomo, D. (2006). 'Research Methods in Humanities and Education,' Egerton, *Egerton University Press*.

LOG Associates (2010, March). 'Report on Evaluation of the Performance of Public Agencies for the Financial Year 2008/2009,' *Office of the Prime Minister*. Author

Martin, L. L. (2005). "Performance-Based Contracting for Human Services: Does It Work?," *Administration in Social Work*, Vol. 29(1). *University of Central Florida*.

Messah, O. B. & Kariuki, F. K. (2011). "Factors Affecting Implementation of Performance Contract Initiative at Municipal Council of Maua-Kenya," *Journal of Finance and Accounting* Vol 2. No. 2

Mugenda, A. G. (2008). 'Social Sciences Research,' Nairobi: *Applied Research Training Services Publishers*.

Obong'o, S. O. (2009). "Implementation of Performance Contracting in Kenya," *International journal of public management*. Retrieved from: <http://www.imp.unisg.ch/org>

Trivedi, P. (2007). 'Performance Contracts in Kenya: Instruments for Operationalizing Good Governance: The World Bank,' Retrieved from: <http://www.unpan.org/.../Publications/Public%20Enterprises%20>