

Attitudes of Local Authorities Employees towards Performance Contracting and its Effect on Performance of Local Authorities

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Abstract: *Performance contracting is a freely negotiated performance agreement between a government, acting as the owner of a public agency and the management of the agency. It is used in the Kenyan public to measure performance. Local authorities face pressure to improve service delivery, lower costs become more accountable, customer focused and responsive to stakeholder needs. They need a system of determining performance in relation to objectives. This research sought to evaluate performance contracting as a tool for improving performance in local authorities in Kenya. A survey was conducted in five local authorities in Kenya. A stratified random sample of 120 employees was drawn from a population of 43800 starting with two-stage sampling. Questionnaires, interviews and document analysis were used for data collection. The study established that a significant majority of respondents support performance contract and agreed that their local authorities should continue using it to measure performance. The study found that customer satisfaction, employee satisfaction, work environment and revenue generation were growing. A chi-square (χ^2) test showed that customer satisfaction has increased significantly since the introduction of performance contracting in the local authorities. The study concluded that the council employees generally have a positive attitude towards performance contracting and they believe that it contributes to enhanced service delivery. Employees of local authorities have knowledge and understanding of administration of performance contracting process. Performance contracting has enhanced performance of local authorities in the areas of customer satisfaction, employee satisfaction, work environment and revenue generation. It is, therefore, recommended that performance contracting should be retained in local authorities as a tool for improving performance.*

Keywords: Target, Indicator, Performance management, Performance assessment

1. Introduction

Performance contracting originated from the perception that the performance of the public sector has been consistently falling below the expectations of the public. Performance contracting is part of broader public sector reforms aimed at improving efficiency and effectiveness in the management of public service. The problems that have inhibited the performance of government agencies are largely common and have been identified as excessive controls, multiplicity of principles, frequent political interference, poor management and outright mismanagement [22] Local authorities face pressure to improve service delivery, lower costs, become more accountable, customer focused and responsive to stakeholders' needs. The problems in local authorities affect all people regardless of their social economic status. Adoption of performance contracting was to address declining performance in the public sector in general [17]. Performance contracting encourages public sectors to set annual targets to address customer needs. According to [19] previous attempts to deal with the problem included privatization and restructuring which did not work. While several approaches have been used to address the challenges, it is hoped that performance contracting will be accepted by public sector workers and improve performance.

2. Background and statement of the problem

Employees' attitude towards performance contracting is important for implementation and sustainability. Individuals require the right attitude to formulate objectives, targets and channel efforts to achieve them. It is also important for employees to accept the performance contracting as a measurement tool and the results generated. This would help establish the performance levels of their local authorities and find ways to improve in the subsequent years. If the attitude about the tool is negative then the manager should establish reasons and how to improve. In local authorities attitude is important because of its behavioral component. If employees believe that performance contracting will make them lose their jobs, it makes sense to try to understand how these attitudes were formed, their relationship to actual job behavior and how they might be changed.

[24] found that people seek consistency among their attitudes and between their attitudes and their behavior. This means that individuals seek to reconcile divergent attitudes and align their attitudes and behavior so that they can appear rational and consistent. When there is an inconsistency, forces are initiated to return the individual to an equilibrium state in which attitudes and behavior are again consistent. This can be done by altering either the attitudes or the behavior, or by developing a rationalization for discrepancy [23] The introduction of performance contracting in local

authorities in Kenya has not improved performance to a level where citizens can see and appreciate value for their money.

This was evidenced in the 2006/2007 performance contracting results [9] where four local authorities were rated very well but citizens complained of lack of improvement in service delivery [19].

In local authorities performance contracting emphasizes performance operationalized in this study in terms of financial (revenue generation) and non financial results (customer satisfaction, employee satisfaction and work environment). According to [16] the dimensions of organizational performance in the public sector are divided in to internal and external performance and each specifies the following performance related values: efficiency, effectiveness and fairness. In Kenya customer satisfaction is based on quality of service that refers to the quality of both the transaction and outcome or results of the service [10].

Performance contracting was introduced to enhance customer communication. This encouraged local authorities to introduce suggestion boxes for receiving complaints and respond to them according to service delivery charters which local authorities developed as a result of performance contracting. Local authorities also carry out customer satisfaction surveys annually as a performance contracting requirement to establish customer satisfaction levels. They use this to get feedback from customers on service delivery. Customer satisfaction surveys provide satisfaction ratings and feedback on performance [20]. The criteria for customer satisfaction survey in Kenya is based on the following customer satisfaction drivers: amount of time it took to get service, staff who provide the service, facilities for the service/product, agency communication and payment process of the service/product received [10] All local authorities are required to achieve improvements in customer satisfaction annually.

[16] argued that people are the important cause of good organizational performance. The government agencies can be more successful when they value their employees and they view people not as a cost but as an asset. Performance contracting would help local authorities to put proper human resource procedures such as appraisal, promotion and career development that increase employee satisfaction. According to [2] employees settle in their work places when there is congruence between organizational values and theirs. [26] found that workers who report high levels of performance service motive are more likely to be satisfied with their jobs when their respective personal values are congruent with those of the government organizations for which they work.

Work environment consists of job characteristics and work context. Performance contracting was introduced in local authorities in Kenya to improve work environment so as to improve service delivery to the public. To achieve this, it is one of the performance indicators and local authorities are expected to conduct annual work environment surveys to establish the status. Good working environment motivates employees to work towards achieving set targets. [4] found that work environment that promote employee job satisfaction and commitment have been associated with

greater staff retention, higher customer satisfaction and better quality of service.

To promote quality service delivery it is important to have good working conditions for employees because it increases staff retention [3] Local authorities should ensure that staffs are adequate to implement performance contracting. This will avoid overworking and delayed target achievement. [6] argued that adequate staffing levels contribute to better quality of service delivered. The employees should also be involved in decision making and realistic target setting. According to [4] work environment that promotes employee involvement in decision making process is associated with greater customer engagement. This study sought to establish the feeling of local authorities' employees towards performance contracting and how it affects performance of local authorities.

3. Materials and Methods

A two-stage sampling technique was used to select 120 employees from a population of 43,800 council employees used in the study. In the first stage, five Local Government Authorities were randomly selected from 175 in the country. The manageable local authorities include: Municipal Council of Kisumu, Municipal Council of Eldoret, Municipal Council of Thika, County Council of Bungoma, and Town Council of Kangundo. In the second stage, a stratified random sampling technique was used to select 120 employees from the five selected Local Government Authorities. The employees were drawn using equal allocation from six strata based on the Departments in the Local Government Authorities as shown in Table 1. The sample consisted of a head of the department and other employees who are implementers of performance contracting in local authorities.

Table 1: Study sample size drawn from five local authorities

Section	Total Number of Employees					Number Sampled				
	KCC	BCC	TMC	EMC	KMC	KCC	BCC	TMC	EMC	KMC
Office of the County Clerk	10	42	81	128	181	4	4	4	4	4
Office of the County Treasurer	12	48	90	144	204	4	4	4	4	4
Engineering and Works	9	37	70	112	158	4	4	4	4	4
Water and Sewerage Services	13	53	102	160	226	4	4	4	4	4
Public Health and Environment	14	56	104	168	238	4	4	4	4	4
Social Services Section	7	29	56	88	124	4	4	4	4	4
Total	65	265	503	800	1131	24	24	24	24	24
KCC = Kangundo County Council					BCC = Bungoma County Council					
TMC = Thika Municipal Council					EMC = Eldoret Municipal Council					
KMC = Kisumu Municipal Council										

Questionnaires were used to collect primary data for the evaluation of the performance contract and performance. Confirmation of the responses given in the questionnaires was done using interviews. Document analysis was used to collect secondary data from records existing in local authorities. These include: previous signed performance

contract, financial records, records on customer and employee satisfaction and work environment surveys.

Determination of attitudes of employees towards performance contracting was done using a five-point Likert scale (1= Strongly agree, 2 = Agree, 3 = Neutral, 4 = Disagree and 5 = Strongly Disagree) was used for scoring. The scores were later converted to a two point scale indicating either 1= positive or 0 = negative. The performance of the local government authorities was assessed in terms of customer satisfaction level, employee satisfaction, work environment and revenue generation. The data on the above performance measures were obtained from records of councils studied for the period between 2006/2007 and 2009/2010. To assess the possible effect of performance contracting on the performance of the councils, trends were analyzed.

A linear regression model was used to track customer satisfaction over time. For work environment, employee satisfaction and revenue generation no formal model was fitted due to irregularity. Analysis of variance was done to establish the significant differences of customer satisfaction level, employee satisfaction, work environment and revenue generation among the years. Chi-square (χ^2) analysis was used to assess whether changes in customer satisfaction and employee satisfaction were significant since the introduction of performance contracting. In addition, some items in the questionnaire asked respondents to indicate their opinion on the perceived customer satisfaction. Frequencies of these scores were computed and presented.

4. Results

A total of 120 employees of five local authorities of Kenya were sampled in the study. The number of employees sampled per local authority was 24. Out of the 120 employees sampled 115 responded which is a response rate of 95.83%. The results are presented in two parts, part one provides results from primary data while part two from secondary data.

Attitude: An attitude is a point of view about something or situation. It is made up of what a person thinks, does and feels. Employees' attitude towards performance contracting is important for its initiation and sustainability. Individuals require the right attitude to formulate objectives, targets and channel efforts to achieve them. The scores obtained from various items on attitude are indicated in Table 2.b From the Table, a significant majority (98%) of the respondents did not think that performance contracting was a waste of time showing a positive attitude towards it. The study also established that 96% of the respondents support the use of performance contract in their local authorities. Objectives guide target setting in local authorities and it is important that they are known by all employees in local authorities. The study sought to establish whether employees know the objectives of performance contracting. Performance contracting objectives are known according to 86% of the respondents. For employees to achieve targets is important that they know how to set them. The study sought to confirm this and it was established that 59 % of the respondents found it hard to set targets (see Table 2). This is a problem

that affects performance contract because target setting determines resource requirements in terms of: time, information, equipment and the knowledge and skills. It also affects service delivery if improper targets are set then they will not improve services. It should be addressed among employees at all levels for proper implementation of performance contracting.

On being asked whether use of performance contracting should be continued, an overwhelming 92 % agreed that their local authority should continue using performance contract to measure performance of their local authority (see Table 2). This shows that local authorities' employees have a positive attitude towards performance contracting and would like their local authorities to continue using it to measure performance. A large number of respondents (N = 99) were satisfied with performance contract used. The reasons for dissatisfaction by some of the respondents were indicated as shown in Figure 1.

According to 65 respondents representing 56.5% of the respondents customers were satisfied with local authorities' service delivery (see Figure 2). This was significantly greater than the 50 representing 43.5% who either remained neutral or indicated that customers were dissatisfied. Interviews were conducted to find out any other improvements in service delivery since performance contract was started. The response indicated that local authorities started customer care desks at the entrance for inquiries and problem solving. They also developed citizens' service delivery charters to affirm their commitment to service delivery. New ways of revenue generation such as parking fee were also introduced in some local authorities.

Customer satisfaction: During performance contracting government agencies are encouraged to establish their customer satisfaction level in a contract year through customer satisfaction surveys. Information on customer surveys from document analysis indicated that customer satisfaction was growing, at Eldoret and Thika municipal councils experienced a growth of 10% in 2007/08 and 2008/09. Kisumu experienced 30% growth over the same period (see Table 3). Information on employee satisfaction survey from document analysis indicated that employee satisfaction was also growing, 50% in 2007/08 to 61% in 2008/09, (a growth of 11%) at municipal council of Thika. Kangundo Town council experienced a growth of 30% during the same period (see Table 4). Bungoma county council was excluded from the analysis due to lack of data on employee satisfaction annual surveys. The coefficients of the linear regression are indicated in Table 5 and the trend of customer satisfaction was linear as shown in Figure 3. From the Table, customer satisfaction increased fastest at 19.8% per year for Kisumu Municipal Council while Kangundo had the lowest growth rate of 15% per year as indicated by the slope.

Respondents revealed during interviews that performance contracting improved customers satisfaction in local authorities. According to chi square test, there has been significant increase in customer satisfaction for all the local government authorities studied except Bungoma County Council. For Eldoret Municipal Council, the level increased

from 35% in 2007/2008 to 65% in 2009/2010. Kisumu Municipal Council had the greatest increase from 20% in 2006/2007 to 76% in 2009/2010 (see Table 6). These findings indicate that performance contracting has improved customer satisfaction with service delivery in local authorities.

Employee satisfaction and work environment: Employee satisfaction similarly did not show any clear pattern. The mean value was also moderate ranging between 55 and 65%. The mean value for work environment also ranged between 60 and 65.6% (see Figure 4). The trends were not quite clear but showed tendency to increase with time. However, respondents revealed during interviews that performance contracting improves employee satisfaction and work environment. According to chi square test, the employee satisfaction for individual councils increased significantly only for Kangundo (from 57% in 2007/2008 to 91% in 2009/2010) and Thika (from 50% in 2006/2007 to 61% in 2008/2009 but dropped to 40% in 2009/2010) (see Table 7). The increase was not significant for Eldoret and Kisumu councils. It shows that performance contracting has increased employee satisfaction for some councils.

Revenue generation: The study sought to find out the effect of performance contract on revenue collection in local authorities from records. From Figure 5, the revenue generated by the councils did not follow the same trends. For Municipal Council of Thika, revenue increased up to 2008/2009 but dropped in the following year. For Kisumu and Eldoret, revenue dropped in 2007/2008 after which it increased continuously up to 2009/2010. For Kangundo revenue increased between 2007/2008 and 2008/2009 after which it appeared to stagnate up to 2009/2010. Revenue collection for Kangundo seem to have remained steady throughout the period reviewed. There has been a growth in revenue in Bungoma local authority over the years. The local authority also introduced parking as revenue generating activity in 2006/2007. Respondents revealed during

interviews that performance contracting improved customers satisfaction.

Table 2: Attitude of respondents to performance contracting

Attributes for attitude	Positive response (%)
1) I think Performance contract is a waste of time	2
2) I know objectives of performance contract	86
3) I find it hard to set targets in performance contract	41
4) I support the use of performance contract to measure performance of my local authority	96
5) I understand how performance contract measures performance of my local authority	78
6) I like the indicators used in performance contract	79
7) I would like performance contract explained to me clearly	69
8) I believe that performance contract is monitored well	68
9) I believe in performance contract results	77
10) I would like my local authority to continue using performance contract to measure performance	92

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|---|--|
| 1. Employees to be involved in target setting | 5. It not fully monitored and followed |
| 2. Delay in provision of resources to achieve targets | 6. Set targets are unrealistic |
| 3. Feed back is not given on time | 7. Some activities are not measurable |
| 4. It is not understood by all the staff in the council | 8. They rely on feedback from implementers |
| | 9. They should go on the ground and check |
| | 10. Unclear evaluation process |

Figure 1: Reasons for dissatisfaction by some respondents with performance contract

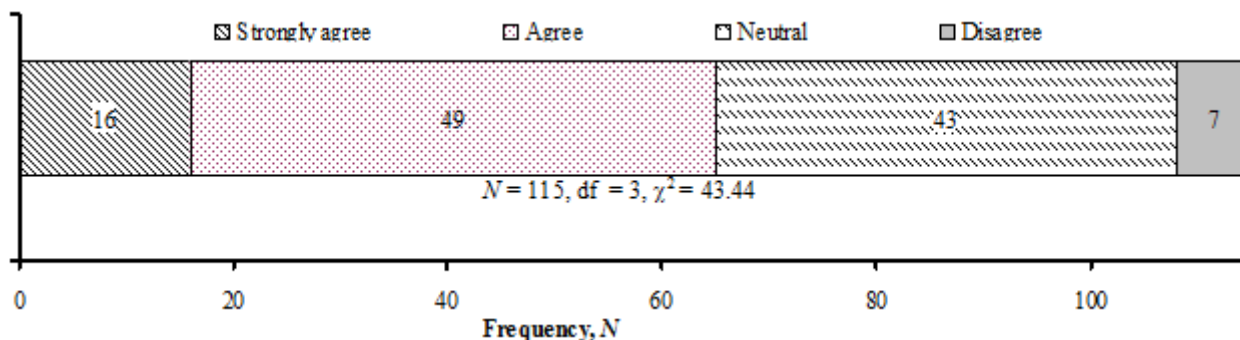


Figure 2: Perception of employees on customer satisfaction with local authority service delivery

Table 3: Information on annual customer satisfaction surveys in local authorities

Council	Customer Satisfaction Level over time			
	2006/2007	2007/2008	2008/2009	2009/2010
Bungoma	-	-	72.00	63.00
Eldoret	-	35.00	45.00	65.00
Kangundo	-	49.00	50.00	70.00
Kisumu	20.00	40.00	70.00	76.00
Thika	50.00	58.00	68.00	75.30

Table 4: Information on annual employee satisfaction surveys in local authorities

Council	Employee Satisfaction over time			
	2006/2007	2007/2008	2008/2009	2009/2010
Eldoret	-	-	45	54
Kangundo	-	57	87	91
Kisumu	60	-	60	63
Thika	50	50	61	40

Table 5: Coefficients of the relationship between customer satisfaction and time for the five Local Government Authorities studied

Local Government Authority	Slope	Intercept	R ²
Thika	8.59	41.35	0.9967
Kisumu	19.8	2.00	0.9483
Eldoret	15.00	3.33	0.9643
Kangundo	10.5	24.833	0.7856
Bungoma†	-0.9	99	1

† There was limited data for Bungoma and therefore the fitted curve cannot be relied upon.

Table 6: Chi square (χ^2) test of customer satisfaction for the five Local Government Authorities studied

Council	Customer Satisfaction Level over time				χ^2	df	p-value
	2006/2007	2007/2008	2008/2009	2009/2010			
Bungoma	-	-	72.00	63.00	4.02	1	0.05

Eldoret	-	35.00	45.00	65.00	43.96	2	0.001
Kangundo	-	49.00	50.00	70.00	17.69	2	0.001
Kisumu	20.00	40.00	70.00	76.00	377.25	3	0.001
Thika	50.00	58.00	68.00	75.30	41.12	3	0.001

Table 7: Chi square (χ^2) test of employee satisfaction for the five Local Government Authorities studied

Council	Employee Satisfaction over time				χ^2	df	p-value
	2006/2007	2007/2008	2008/2009	2009/2010			
Eldoret	-	-	45	54	3.27	2	> 0.05
Kangundo	-	57	87	91	83.88	2	0.001
Kisumu	60	-	60	63	0.36	3	> 0.05
Thika	50	50	61	40	8.84	3	0.01

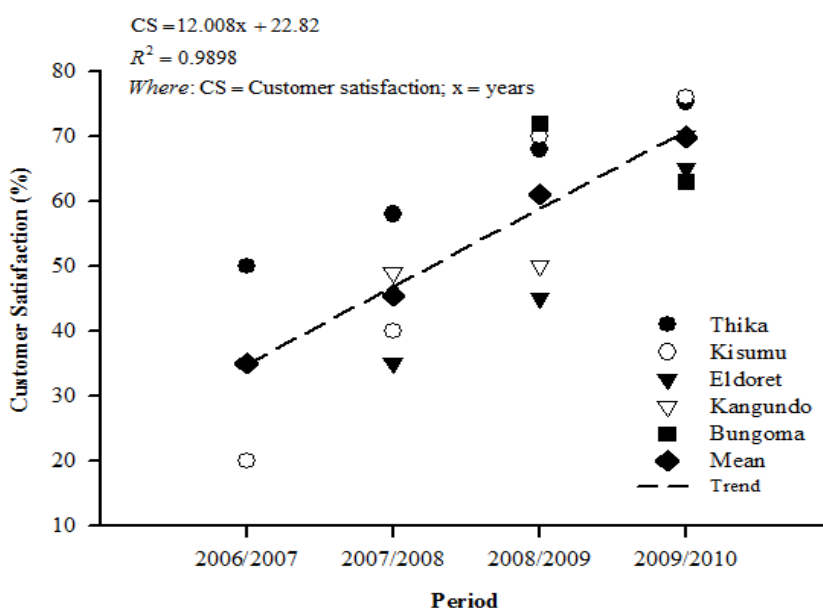


Figure 3: Level of customer satisfaction for the five local Authorities

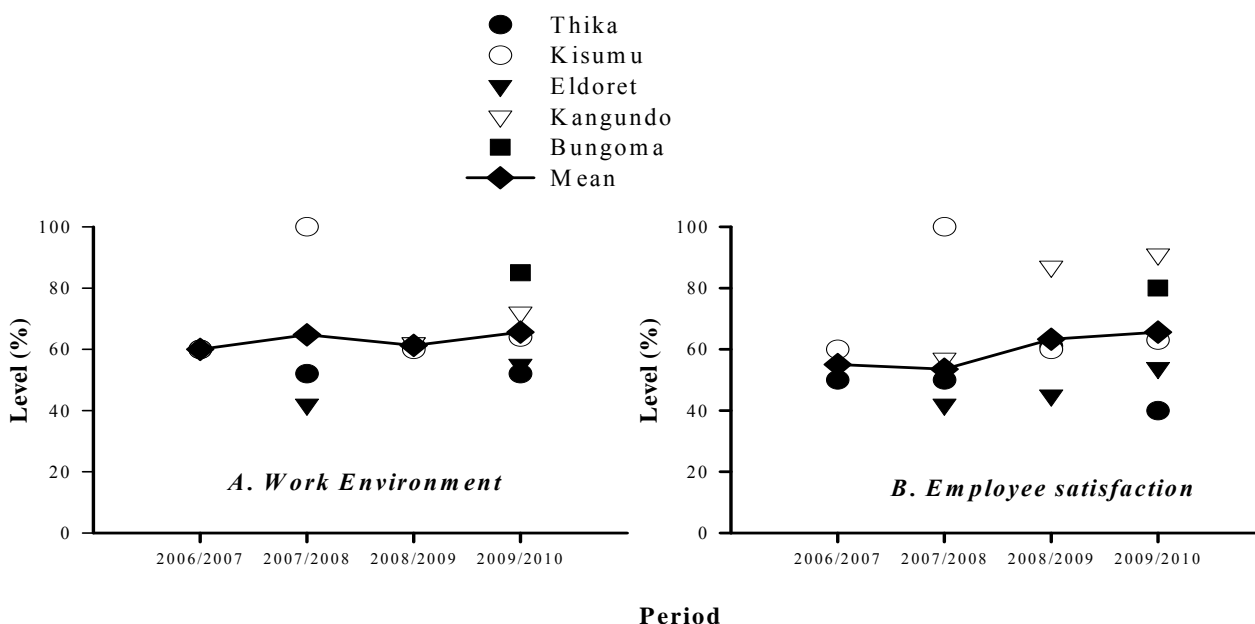


Figure 4: Trend of work environment (A) and employee satisfaction (B) in local authorities.

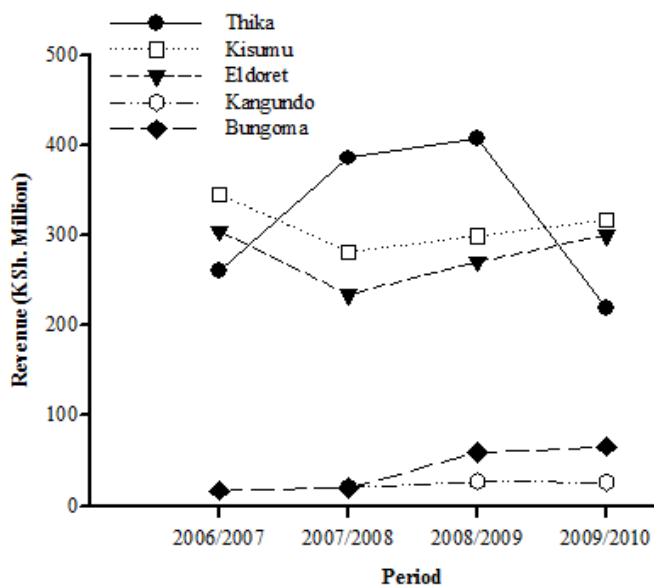


Figure 5: Revenue generation in local authorities between 2006/2007 and 2009/2010

5. Discussion

Attitude is a mental habit that filters how people perceive their environment and also the actions and behaviors they take in response. The study established that local authorities' employees did not think that performance contracting was a waste of time. This is because of the results witnessed from set targets. They further supported the use of performance contracting in measuring performance of their local authorities. Therefore, this shows that employees of local authorities have a positive attitude towards performance contracting. [14] found that building a satisfying workplace with adequate resources will help keep valuable employees and attract new talents. They further argued that direct work conditions have a larger impact on employee experience and attitudes. For local authorities to embrace performance contracting employees need to have a positive attitude for support. Many workers around the world according to [13] support continued use of performance contracts in their work places. This was supported by [15] that majority of Kenyans had heard about performance contracting and they thought that it was working well.

The study further established that customer satisfaction was growing in local authorities. This is according to the customer satisfaction surveys conducted in local authorities annually. This agrees with the customer satisfaction national survey which established that the customer satisfaction index was 63.5% which is comparable to that of New Zealand 68% in 2007 and Canada 67% in 2005 [10]. The customer satisfaction survey is about the degree of satisfaction or dissatisfaction with service delivery. It is about the individual value and personal satisfaction with that value. According to Chi-square test the average customer satisfaction increased significantly over the years. This shows that performance contracting has improved customer satisfaction with service delivery in local authorities. [11] found that the extension of performance contracts to local authorities has ensured inclusion of grass root level communities in ensuring achievement of Kenya's Vision

2030. The initiative has turned out to be a powerful tool in restoring and building trusts in a Government that the public almost lost hope in. Customers want to be treated fairly for them to be satisfied. According to [25] either all customers are treated the same way or if differently treated they were treated equitably and fairly according to their unique needs.

The study also established revenue growth in collection in local authorities in Kenya not being steady. In some local authorities revenue growth was experienced, for example Town council of Kangundo while some had a growth and drop the following year. This findings are consistent with what Mboga (2009) found that revenue of local authorities have been increasing upwards from 2002/2003 (Ksh.9.1m to 2006/2007 (Ksh. 59.6m). This also followed a nationwide trend where on average gross domestic product (GDP) grew steadily between 2001 to 2007, from 0.3 in 2001 to 7.0% in 2007. Due to post election violence the growth reduced to 2% in 2008. In spite of the violence that interrupted the trend performance contract reforms are yielding fruits [11]. [15] reported that financial outcome of the first wave of performance contracting in state corporations was stunning in that, cumulative losses of Ksh.800 million in a year turned into profits of Ksh. 2 billion. The study carried out by [1] found evidence of improvement in income over expenditure as well as service delivery in the State Corporations and Government Ministries in Kenya. From the results of 2005/2006 financial, majority of state corporations posted excesses of revenue over expenditure [8]. This finding is consistent with [12] that performance contracting improves budgeting, promotes better reporting, modernizes public management, enhances resource efficiency and effectiveness and service delivery.

The study finding established tendency of work environment and employee satisfaction to increase with time. This is because performance contracting allows employees autonomy to achieve targets once they are set. This leads to intrinsic motivation and employee satisfaction. Chi-square test does not give clear indication for employee satisfaction for the local authorities. This is because of some employees not being satisfied with inadequate resources. According to [15] using performance contracting has provided important discipline through target setting and reporting requirements. It has also shifted focus towards goals and results. These findings are echoed by [11] that there has been tremendous and measurable performance arising out of performance contracting reforms initiatives which resulted to international recognition. In 2007, Kenya was awarded by the United Nations a Public Service Award in the category of improved areas. These are transparency, accountability and responsiveness in the public sector. Local authorities also devised new ways of generating revenue such as collection of revenue from parking of vehicles for those that were not charging. According to [5] performance contracting has added value by introducing target setting prompting officers to device new ways of revenue generation. Local authorities also have customer care desks to improve customer service. Citizen Service Charters were also developed to affirm commitments for service delivery. This agrees with [1] who reported that most state corporations and government ministries have functional customer care and public relations offices due to performance contracting.

6. Conclusion and Recommendations

From the study findings it is concluded that council employees generally have a positive attitude towards performance contracting and that they believe that it contributes to enhanced service delivery. Performance contracting has enhanced performance of local authorities in the areas of customer satisfaction, employee satisfaction and revenue generation. There is also enhanced working environment as seen from provision of vital resources and overall employee satisfaction.

The study therefore recommends that performance contracting should be retained in local government authorities as a tool for improving performance. Performance evaluation should consider and meet the needs of the users not just indicators predetermined by the government. The assessment criteria should consider process indicators such as how transparent the local authority is to its customers or proper urban planning that promotes economic growth of the public. After evaluation, there should be freedom of information. The public as users of local authorities' services should be allowed to access performance contract evaluation results details through websites. This will allow the customers to know the efficiency and effectiveness of their local authorities and enhance transparency. The performance contracting cycle should be aligned to Government short and longer term planning and budgeting framework. Since the study looked at fewer local government authorities, future studies may look at more local government authorities.

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