

**EFFECTS OF PERFORMANCE CONTRACTING ON EMPLOYEES' PERFORMANCE
IN COMMERCIAL BANKS: A CASE OF FAMILY BANK WESTERN REGION
BRANCHES, KENYA**

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Abstract

The objective of performance contracting is the control and enhancement of employees' performance and thus the performance of the whole institution. Performance contracting is a freely negotiated performance agreement between the employers and employees. It is the latest strategy used in the banking sector to enhance employee's performance. The purpose of the study was to assess influence of performance contracting effect on employees' performance in Family Bank. The study employed a descriptive research design. The study targeted 301 employees from 15 branches of Family Bank in Western region, from which a sample size of 45 respondents was obtained. Stratified random sampling and simple random sampling were used. The research instruments used included both closed-ended questionnaire and focus group discussion besides the interview schedules. Results revealed positive and significant associations between setting of performance targets, monitoring and evaluation, performance contracting process and implementation of performance contracting on employee performance in Family Bank branches in Western region of Kenya.

Key words; Performance Contracting, Employee Performance, Performance Evaluation

INTRODUCTION

The need to improve productivity has been core focus of many organizations in their quest to survive tight competition and maintain sizable market share and broad based client portfolio.

Towards this, employees' performance has been integrated in the overall productivity strategies through among others, performance contracting. A Performance Contract is a freely negotiated performance agreement between the principal, and the management of the agency. In it, parties agree on responsibilities assigned, aims, targets and all obligations of each party within the organization. The results and outcomes are mutually agreed within a performance contract as is considered as one of the many management instruments for managing organization's productivity (Lane, 1987).

Profile of Family Bank

Family bank was established in 1984 as a building society to offer banking services to the largely unbanked population who had been ignored by mainstream banks. The institution experience rapid growth over the year culminating to its transformation to a fully-fledged commercial bank in May 2007. As a financial intermediary, the bank has 92 branches distributed across the country with over 1,800,000 customers which making it one of the largest banks serving the mass market in all parts of country. Its growth has also seen the profit improved to hit ksh. 1 billion mark in 2013 with pretax profits of 2.9 billion shillings in 2015. The bank's operation is founded on adoption of universal banking model aimed at positioning the bank as a one stop-shop providing retail & consumer products, SME, agribusiness, corporate banking and Trade Finance and insurance products.

The basis for introduction of performance contracting in Banks underlines the assumption that performance measurements, clarification of corporate objectives, customer orientation and an increased focus towards incremental productivity and cost reduction can be achieved leading to improvements in service delivery (GOK 2003). Faced with demands from Central Bank for better performance of financial institutions, In 2007, Family Bank outlined commitments to improve

performance, corporate governance and management in the employees through the introduction of performance contracts in its policy framework, (2007 – 2013). According to Obong'o (2009) this was partially because of a new central bank regime that had just been elected on the platform of change.

Justifications of the Study

Family bank has been rated as one of the rapidly expanding financial institution as manifested in the growth in profit, number of branches, ranked the best bank in microfinance and also 1st runners up by the think business magazine. Njoki (2013) raise concerns over customer satisfaction as it has not featured prominently in ratings against other banks. According to half year results of 2016, Family bank announced a 40% decline in after Tax Profits to Kshs. 711.5 million compared to Kshs. 1.18 Billion posted in the same period in 2015. This has led the bank in ending contracts with employees that did not perform well. Additionally, Obong'o (2009) established that in Banks the rate at which public task performance is falling is alarming. According to GOK (2003), this will be the push factor behind bank's heavy investment in technology to realize good performance as a result of engaging employees fully to support the systems.

In 2009, Obong'o pointed that performance contracting will be designed not only to improve service delivery but also to refocus the mindset of employees away from a culture of inward looking towards that of business focused on customer and results. However, to date the logics of the heavy investment in performance contracting by the bank is not clear because the results of the initiative have not been determined. This makes this study necessary because it is seeking to assess the contribution of performance initiative on performance in Banks as a critical target of performance contracting strategy.

LITERATURE REVIEW

This part entails the literature that was reviewed in relation to performance contracting and employee s performance. The objective of performance contracting is the control and enhancement of employees' performance and thus the performance of the whole institution, Smith (1999). According to Higgins (1996), in dynamic and changing environment, one way to create growth and sustain performance is to innovate. Furthermore, it has been suggested that innovation is essential in order to generate long-term stability, growth, and sustainable performance and remain at the leading edge of the industry, Cook (1998).

Maximizing performance is a priority for most organizations today Garly (1977). Employees' job performance is an important issue for all employers. However, satisfactory performance does not happen automatically; therefore, it more likely with a good performance management system consists of the process used to identify, evaluate, improve and reward employee performance at work. Korir(2005) studied the impact of performance contracting at the East African Portland Cement and his study established that in the presence of the PC's, there is a corresponding improvement in performance. Although performance contracting has had successes, it has some challenges. A major activity of the performance contracting exercise is at least the public announcement of the performance results of MDA's by H.E the president and the Rt. Hon. Prime Minister, GOK (2010)

Conceptual Framework

This study was further guided by the following conceptual framework which relates the independent variable with dependent variables. Figure1 shows the independent variable, performance contracting which was measured through performance targets, monitoring, appraisal,

performance rewarding and employees learning and development, while dependent variable, employees' performance, has the following constructs; Service delivery, Employee Satisfaction, Efficiency and effectiveness and Implementation of Service Charter. The framework creates an image of how the independent variables are at play to affect the dependent variables. The direction of the arrows shows the interrelationships between key variables of the study.

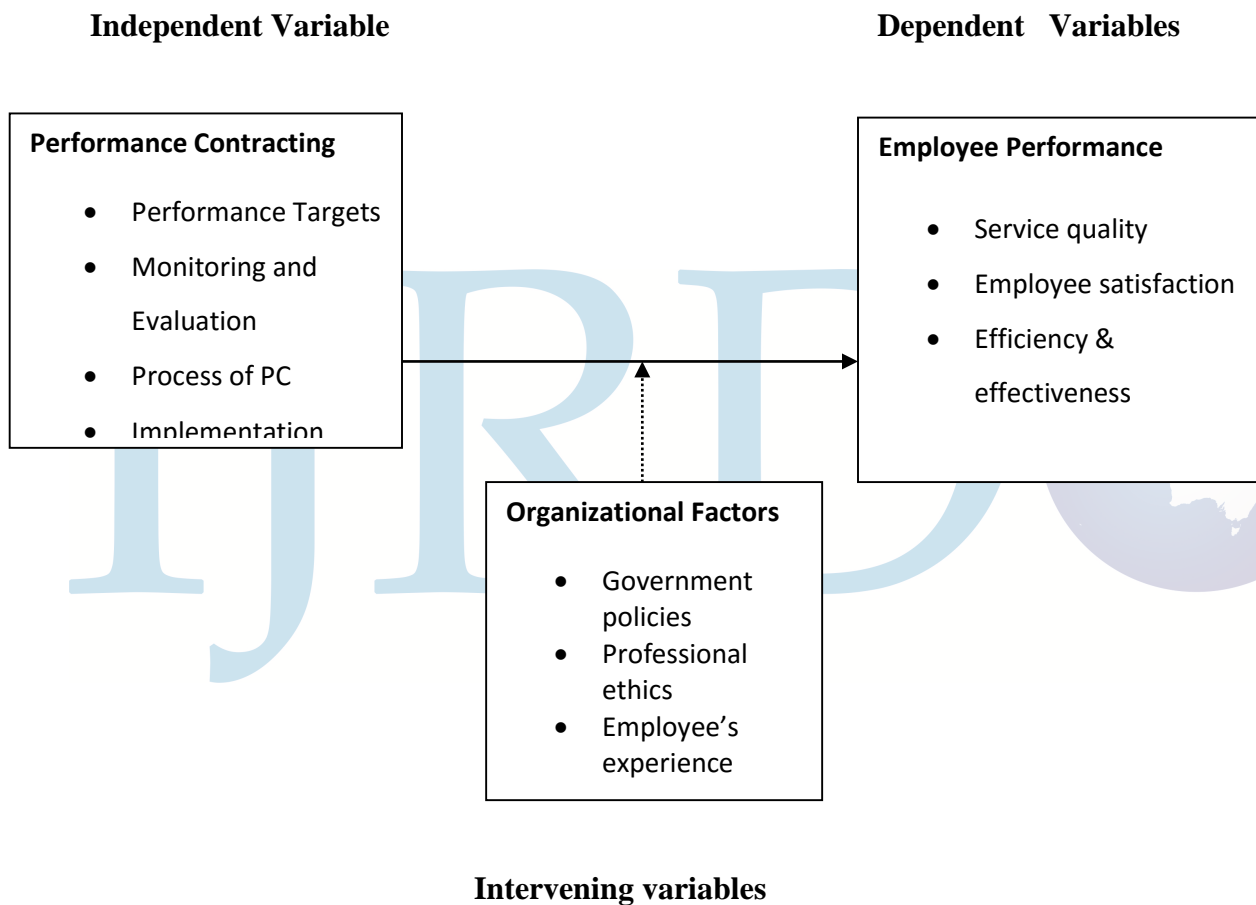


Figure 1: Conceptual Framework showing Interaction of Variables

Source: Researcher (2016)

Knowledge Gap

Simon's work is based on assumption that it may be advantageous to defer production decisions; Yowell's Theory of incentives concerns situations in which the agent makes production decisions early in the contract. If the theory of incentives will be broadened to include the agent's unforeseen events, it become a more realistic theory and would nearly constitute a theory of performance contracting.

It has been noted from the literature review that quite a lot of research has been conducted on employee performance strategies and its effect on organizational performance in developed countries (Hodge, 1998; Letangule and Letting, 2012; Korir, 2006 and Kobia Mohammed, 2006).

However, the following gaps have been identified in the review;

First, most studies have focused on evaluating the appraisal systems and how they affect performance leaving out performance contracting. Secondly, studies have employed varied methodology thus yielding conflicting results on the effect of employee performance management on business performance. Additionally, the sample sizes of some of the studies were small thus limiting generalization.

RESEARCH DESIGN AND METHODOLOGY

The study employed descriptive research design which according to Kothari (2004), descriptive research design is concerned with describing, recording, analyzing and reporting conditions that exist or existed. Kerlinger (2003) argues that this method is widely used to obtain data useful in evaluating present practice in providing basis for decision. Additionally, based on the fact that research undertaking involves many cost implications this design was selected deliberately for the study because it allows for quick data collection at a comparatively cheap cost.

The study was carried out in the Western region branches of Family bank, in Kenya. The bank is subdivided into branches and regions in the whole country. The western region branches comprises of Kericho, Kisumu (2 branches) Kisii and nyamira, Litein, Eldoret (2branches), Kitale, Busia, Kakamega, Mumias, Bungoma, Kapsabet and Migori. In this study the target population included 301 employees in the 15 branches of Family bank of Western Region distributed as indicated in Table 3.1.

Table 1: Target Population

Category	Frequency
Management staff	45
Credit staff	75
Operations staff	143
Marketing staff	38
Total	301

Source: Human Resource Department & Marketing Department, Family bank, 2016)

Sampling means selecting a given number of subjects to represent the population. Any statements made about the sample should also be true of the population (Orodho, 2003). Stratified random and simple random sampling techniques were used to select the 45 respondents. According to Oso and Onen (2005), the goal of stratified sampling is to achieve a desired representation from various sub groups in the population. Stratified sampling was used to classify 301 respondents into 4 categories. A sample of 15% was considered based on Israel (1992) who postulates that a sample of between 5 and 15 percentage was deemed adequate where the population is not so large. A sample size of 45 respondents was distributed across the strata as shown in Table 3.2.

Table 2: Sample Distribution

Population Strata	Population	Sample size
Management staff	45	7
Credit staff	75	11
Operations staff	143	21
Marketing staff	38	6
Total	301	45

Source: Researcher, 2016

In this study, closed-ended questionnaires and focus group discussions will be adopted for data collection. This is because the items in the closed-ended questionnaires are in a form that is immediately analyzable on the basis of the multiple choices. The suitability of this questionnaire is further explained by the fact that the multiple choices guide the respondents during data collection since the respondents have limited options to choose from as restricted by the available options. Apart from this, interview schedules will be applied upon the key informants in the study who will be branch managers.

DATA ANALYSIS AND DISCUSSION

Return Rate of Questionnaires

The questionnaire return rate was 100% since all the 43 questionnaires given to the respondents were returned. According to the Saunders *et al.* (2007), a response rate of at least 90% is considered a good rate.

Sample Normalcy and Adequacy

In order to measure sampling normalcy and adequacy of data, this study used Kaiser-Meyer-Olkin (KMO) and Bartlett's test whose value normally ranges between 0 and 1. The results are as shown in Table 3

Table 3: K-M Test

One-Sample Kolmogorov-Smirnov Test			
		Performance Contracting	Employee Performance
N		43	43
Normal Parameters ^{a,b}	Mean	4.2326	3.9302
	Std. Deviation	0.68443	1.14216
	Absolute	0.261	0.269
Most Extreme Differences	Positive	0.261	0.174
	Negative	-0.241	-0.269
Kolmogorov-Smirnov Z		0.711	0.761
Asymp. Sig. (2-tailed)		0.006	0.004

Source: Research data, 2016

a. Test distribution is Normal.

b. Calculated from data.

The results show high values ranging between 0.5 and 1 which indicate that data was normally distributed. Values below 0.5 imply that data is not normally distributed (Kaisen, 1974).

Gender of the Respondents

The respondents indicated their gender and the results are recorded in Table 4.

Table 4: Gender of Respondents

	Gender		
	Frequency	Percentage	Cumulative Percent
Female	14	32.6	32.6
Male	29	67.4	100.0
Total	43	100.0	

Source: Research data, 2016

The results show that 14 respondents which was equivalent to 32.6% were female while the remaining 29 respondents which is equivalent to 67.4% were male. Majority of the respondents were male who participated in the study.

Length of Service at Current Job Group

The other question aimed at establishing the length of service at current job group. The results were as shown in Table 5. The results show that 14% of the respondents have been at the current job group between 4 to 6 years, 46.5% have been there between 7 to 9 years while the remaining 39.5% have been working for over 10 years in the same job group. This implies that majority of the respondents have been in the same job group for over 7 years at family bank.

Table 5: Duration at current station

How long have you been at your current job group			
	Frequency	Percentage	Cumulative Percent
4 to 6 years	6	14.0	14.0
7 to 9 years	20	46.5	60.5

over 10 years	17	39.5	100.0
Total	43	100.0	

Source: Research data, 2016

4.4 Effect of Performance Contracting on Employee Performance

The section provides information on descriptive statistics on the issues regarding performance contracting and employee performance at family bank. The constructs under performance contracting were, performance targets, monitoring and evaluation, process of performance contracting and implementation. The mean and standard deviation were used.

Effect of Performance Targets on Employee Performance

Several questions were raised to establish the effect of performance targets on employee performance. The descriptive results are as discussed in Table 6.

Table 6: Descriptive results of Performance Targets

Variables	Descriptive Statistics						
	SA f(%)	A f(%)	U f(%)	D f(%)	SD f(%)	Mean	Std. Dev.
We have employee targets as a result of performance contracting	19(44.2)	10(23.3)	10(23.3)	0(0)	4(9.3)	3.9302	0.24203
Employees negotiate for individual targets	18(41.9)	8(18.6)	6(14)	10(23.3)	0(0)	3.7442	0.29271
Our set targets motivate employees	21(48.8)	13(30.7)	5(11.6)	0(0)	4(9.3)	4.0930	0.21133
Employees sign balance score cards	18(41.9)	13(30.2)	7(16.3)	4(9.3)	0(0)	4.000	0.09109

Source: Research Study 2016 (SA=strongly agree, A=Agree, U=Undecided, D=Disagree, SD=Strongly Disagree)

The question on whether employees set targets as results of performance contracting was scored as follows: strongly agree was 44.2%, agree was 23.3%, undecided was 23.3% while strongly disagree was 9.3%. Majority of the respondents agreed with the statement. The responses on employees negotiate for individual targets had the response as follows: strongly agree was 41.9%, agree was 18.6%, undecided was 14%, while disagree was 23.3%. The other question on our set targets motivate employees had the following response: strongly agree were 48.8%, agree were 30.7%, undecided were 11.6% while strongly disagree were 9.3%. Majority of the respondents agreed that the set targets motivate the employees. The last statement on employees sign balanced score cards had the following responses: strongly agree was 41.9%, agree was 30.2%, undecided was 16.3% while strongly disagree was 9.3%. Majority of the respondents agreed that employees sign balanced score cards.

The study further used simple regression analysis to establish how the targets of performance contracting affect the performance of employees in Family bank. The test was done at 95% confidence level and 0.05% significance. First, the study set out the following null hypothesis: H_0 : Targets of performance contracting do not have significant effect on performance of employees in Family bank

The test criteria was set such the study rejects the null hypothesis H_0 if $\beta_1 \neq 0$. The results in Table 4.9 show that there is a strong positive significant relationship between targets of performance contracting and employee performance ($r=0.720$, $p \leq 0.01$). This led to the rejection of the null hypothesis and concluded that targets of performance contracting had a positive and significant effect on performance of employees in family bank. The summary of the regression analysis was as shown in Table 7.

The results reveal that performance targets has a statistically significant positive relationship on employee performance and the relationship between the two followed a regression model of the nature; $P = \alpha + \beta_1 T + c$. Substituting the values into the equation we have $P = 0.840 + 0.721T + 0.51346$, where P=Performance, T= targets of performance contracting. The results therefore indicate that 52% of employee performance in family bank can be attributed to targets of employee contracting.

Table 7: Regression of performance targets against employee performance

Model Summary						
Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate	
1	0.721 ^a	0.520		0.508	0.51346	
a. Predictors: (Constant), Performance targets						
ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.702	1	11.702	44.386	<0.05
	Residual	10.809	41	0.264		
	Total	22.512	42			
a. Dependent Variable: Employee Performance						
b. Predictors: (Constant), Performance targets						
Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.840	0.508		1.653	<0.05

	Low cost	0.769	0.115	0.721	6.662	<0.05
a. Dependent Variable: Employee Performance						

Source: Research data 2016

Table 8: Descriptive results of implementation of performance contracting

	Descriptive Statistics						
	SA	A	U	D	SD	Mean	Std.
	f(%)	f(%)	f(%)	f(%)	f(%)		Dev.
Performance contracting helps me to achieve my set targets	23(53.5)	17(39.5)	3(7)	0(0)	0(0)	4.4651	0.63053
Through performance contracting, the bank offers me opportunities to develop on the job through various forms of training	16(37.2)	11(25.6)	4(9.3)	8(18.6)	4(9.3)	3.6279	0.39767
Our turnaround time has improved as a result of performance contracting	17(39.5)	18(41.9)	13(30.2)	11(25.6)	1(2.3)	4.0336	0.9322
There is performance appraisal of employees	14(32.6)	10(23.3)	6(14)	11(25.6)	2(4.7)	3.7349	0.31564

Source: Research Study 2016 (SA=strongly agree, A=Agree, U=Undecided, D=Disagree, SD=Strongly Disagree)

The reaction on the questions was as follows; Performance contracting helps me to achieve my set targets had 53.5% strongly agree, 39.5% agreed while the remaining 7% were undecided. The other question through performance contracting, the bank offers me opportunities to develop on

the job through various forms of training scored 41.9% strongly agree, 13% agree, 25.6% were undecided while the remaining 2.3% strongly disagree. The results imply that majority of the respondents agreed. The last question, there is performance appraisal on employees scored 32.6% strongly agree, 23.3% agree, 14% undecided, 25.6% disagree while the remaining 4.7 strongly disagreed. The majority of the respondents agreed.

The study further used simple regression analysis to determine effect of implementation of performance contracting on performance of employees in Family bank. Just like in the other objectives, the test was done at 95% confidence level and 0.05% significance. First, the study set out the following null hypothesis: H_04 : Implementation of performance contracting does not have effect on performance of employees in Family bank.

The test criteria was set such the study rejects the null hypothesis H_04 if $\beta_4 \neq 0$. The results in Table 8 show that there is a strong positive significant relationship between implementation of performance contracting and employee performance ($r=0.590$, $p \leq 0.01$). This led to the rejection of the null hypothesis and concluded that performance contracting process have a significant positive effect on performance of employees in family bank.

The results revealed that implementation of performance contracting had a statistically significant positive relationship on employee performance and the relationship between the two followed a regression model of the nature; $P = \alpha + \beta_4 IPC + c$. Substituting the values into the equation: $P = 1.493 + 0.590IPC + 0.54438$, where P =Performance, IPC = Implementation of Performance Contracting. The results therefore indicate that 34.9% of employee performance in family bank can be attributed to implementation of performance contracting process.

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

The summary of the findings are as follows:

The results revealed that performance targets had a positive and statistically significant relationship on employee performance and the relationship between the two followed a regression model of the nature; $P = \alpha + \beta_1 T + c$. Substituting the values into the equation: $P = 0.840 + 0.721T + 0.51346$, where P=Performance, T= targets of performance contracting.

The results also indicate that 52% of employee performance in family bank can be attributed to targets of employee contracting. The results revealed that monitoring and evaluation had a statistically significant positive relationship on employee performance and the relationship between the two followed a regression model of the nature; $P = \alpha + \beta_2 ME + c$. Substituting the values into the equation: $P = 0.627 + 0.646ME + 0.56584$, where P=Performance, ME= Monitoring and evaluation. The results therefore indicate that 41.7% of employee performance in family bank can be attributed to targets of employee contracting.

Conclusions

From the findings, the following were the conclusions arrived at:

The results revealed that performance targets had a positive and statistically significant relationship on employee performance. The results therefore indicate that 52% of employee performance in family bank could be attributed to targets of employee contracting.

The results revealed that monitoring and evaluation had a statistically significant positive relationship on employee performance and that 41.7% of employee performance in Family Bank could be attributed to targets of employee contracting.

The results illustrate that there is a strong positive significant relationship between performance contracting process and employee performance ($r=0.671$, $p\leq 0.01$) and that 45% of employee performance in family bank could be attributed to performance contracting process.

Recommendations

The study recommended that performance contracting is very critical in any organization and therefore, setting of performance targets, monitoring and evaluation, performance contracting process and implementation of performance contracting should be emphasized by the management if its fruits are to be realised among employees.

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