

EVALUATION OF THE EFFECT OF PERFORMANCE CONTRACTING ON
THE ACHIEVEMENT OF ORGANIZATIONAL GOALS: A CASE OF THE
OPERATIONS OF KENYA AGRICULTURAL RESEARCH INSTITUTE (KARI),
KENYA

NYAANGA SAMSON OGECHI



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College

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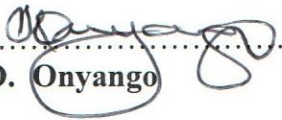
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I hereby declare that this Research Project is my original work and it has not been presented for a degree or any award of this or any other university.

Signature.......... Date.....03-08-2011.....
Samson Ogechi Nyaanga
CM11/00002/09

RECOMMENDATION

This Research Project has been submitted for examination with our approval as university supervisors:

Signature.......... Date.....12/08/2011.....
Mr. Jonathan O. Onyango
Senior Lecturer,
Egerton University

Signature.......... Date.....19/9/2011.....
Dr. Szumbah Mwanaongoro
Lecturer,
Egerton University

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DEDICATION

I dedicate this work to my wife Rael Ogake, to my brothers Zachary, Daniel and Godfrey, to my sister Rachael and to my children Levi Nyaanga, Jemiah Nyanchanma and Ezra Aboki. To my wife for her untiring support, to my brothers Zachary and Daniel and my sister Rael for their care and love to me during my early days as a child. To my children for their inspiring innocence, enthusiasm and love.

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ABSTRACT

The objective of the study was to determine the effectiveness of performance contracting as a performance management tool by evaluating its effect on the achievement of organizational goals. The area of research was at the Kenya Agricultural Research Institute (KARI) which is one of the state owned enterprises placed under Performance Contract. KARI is a semi- autonomous research and knowledge generation institute with several research centres strategically placed across the Republic of Kenya. The operations of these research centres are similar countrywide except for the uniqueness of the agro-ecological zones where they are located. The target population was 866 employees who have been placed under Performance Contracts. These were made up of 52 Top Managers, 489 Research Officers, 91 Technical Officers, 81 Technologists, 39 Administrative Officers, 38 Finance Staff and 76 staff from Supplies, Secretarial, and Library / IT cadres combined. A sample size of 272 staff was taken consisting of 16 Top managers, 154 Research Officers, 29 Technical Officers, 25 Technologists, 12 Administrative Officers, 12 Finance Staff and 24 Staff from Supplies, Secretarial, and Library / IT cadres combined. A random sampling technique was applied on the identified strata and data were collected using questionnaires which were administered on the sampled population. The collected data were analyzed by means of descriptive statistics and a five point Likert Scale weighted average. The findings of the study indicated that the Performance Contracting Strategy had a moderate positive effect on the operations of KARI. The study is intended to benefit KARI as a Research Institute, the Kenya Government and donor agencies like World Bank, United States Agency for International Development (USAID), and European Union who partner with KARI in research and provide the required resources. Other research institutions and universities would also be beneficiaries of the study. A replication of the research is suggested in organizations whose operations are similar to those of KARI so as to obtain a wider coverage of participants.

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LIST OF ABBREVIATIONS

1. **PCS** - Performance Contracts
2. **NPR** - National Performance Review for Government
3. **G.O.K** - Government of Kenya
4. **UN** - United Nations
5. **PSRP** - Public Sector Reforms Programme
6. **ERS** - Economic Recovery Strategy for Wealth and
Employment Creation
7. **KARI** - Kenya Agricultural Research Institute
8. **MBO(S)** - Management by Objectives
9. **RBM** - Results Based Management
10. **RRI** - Rapid Results Initiative
11. **PSR & PC** - Public Sector Reforms and Performance Contracting.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Performance Contracts have their origins in the general perception that the performance of the public sector in general and government agencies in particular, has consistently fallen below the expectations of the public (Trivedi, 2004). Some of the factors that have inhibited the performance of government agencies have been identified as excessive regulations and control, multiplicity of principals, frequent political interference, poor management, outright mismanagement and bloated staff establishments (G.O.K, 2005a). Scott (1996) also says that public sectors in most African countries are presently viewed as over-extended suffering managerial problems and accused of poor service delivery. Their problem stem from unclear and conflicting objectives, lack of autonomy and accountability, pricing problems and inadequate management information systems.

It is on this basis that the role of government is being redefined to exclude micromanagement of decision making (Osborne and Gaebler, 1992). Aware of reforms that have swept across nations including privatization, retrenchment, rights sizing and partnership with the private sector, Performance Contracts are now central strategies of governments in their reform plans as given in their development plans.

Although Performance Contracts received official recognition by the Kenya Government in 1991, the policy decision to introduce them in the management of public resources was in earnest conveyed in the Policy Paper on Economic Recovery Strategy for wealth and Employment Creation (2003 – 2007) popularly known as ERS. The strategy initiated the program of Performance Contracts for chief executives of state corporations and permanent secretaries as a strategy to improve efficiency of the public sector. It outlined the governments' commitment to improve performance, corporate governance and management in the public service through the introduction of performance contracts. Kenya Agricultural Research Institute (KARI) is one of the state-owned enterprises that were placed under performance contracting in June 30th 200

1.1.1. The Kenya agricultural research institute (KARI)

The Kenya Agricultural Research Institute which is referred to as KARI; its acronym, is one of the seven other research institutes established under the Science and Technology Act (CAP 250) of 1979. It is a semi autonomous research and knowledge generation institute with its headquarters at Loresho, Nairobi and currently under the Ministry of Agriculture. It has twenty two (22) main research centers and fourteen (14) sub-centers located throughout the country. These centers are strategically placed to cater for different agro-ecological zones and socio-economic systems. KARI's current Research Programmes are undertaken in six (6) areas, that is: Crops; Livestock; National Resource Management, Socio-Economics, applied statistics and adaptive research; Outreach and Partnerships; and Biotechnology (KARI service charter, 2009). The institute's present strategic plan (2009 – 2014) is anchored on the country's long-term development plan: Vision 2030; where the agricultural sector is set to play a critical role in the attainment of the vision 2030's targets.

KARI's vision and mission statement are clearly articulated in most of the institute's print-outs and at its website. It envisions "a vibrant commercially – oriented and competitive agricultural sector propelled by science, technology and innovation". This vision requires KARI and its stakeholders and partners to stretch their future expectations, aspirations and performance. The mission statement that expresses the fundamental purpose and business of KARI is: "to contribute to increased productivity, commercialization and competitiveness of the agricultural sector through generation and promotion of Knowledge, information and technologies that respond to clients, demands and opportunities" (KARI strategic plan 2009 -2014). This underscores KARI's role as a premier Research Institute in the agricultural development of the country.

KARI is governed by a Board of Management (BOM) comprising of six (6) appointed members and members representing relevant line ministries. The appointed members are eminent scientists and managers, while representatives of the line ministries are senior officers in those ministries. The day – to – day management of the institute is vested in

the Director – KARI as the chief executive of the organization. The Director is assisted by Deputy Directors, Assistant Directors, Chief of Divisions and Centre Directors in the management of the Institute. KARI Headquarters is located at Loresho, along Kaptagat Road, Nairobi. (KARI services charter 2009)

Performance contracting in KARI is first undertaken at the management level of the institute and then cascaded within the institute at lower levels, that is: the Board of Management and the permanent secretary Ministry of Agriculture signs a performance contract, then, the same Board of Management signs a performance contract with the Director, KARI. This is cascaded down into the lowest management levels. Any KARI officer involved in research is required to sign a performance contract irrespective of his position in the institute.

The cascading of the performance contracts within the institute is meant to ensure that there is pursuance of the institute targets by the management based at KARI headquarters Nairobi, and the research centres, where most of the activities contributing to the attainment of the set targets are conducted. These arrangements are in conformity with the United Nations guidelines on performance contracting passed under resolution 48/180 of the General Assembly of UN, on Entrepreneurship and privatization for Economic Growth and sustainable Development

The KARI areas covered by the study consists of KARI headquarters and sixteen (16) of the twenty-two (22) KARI Research Centres. These Research Centres are: KARI – Muguga South which is responsible for research in support of agricultural development in ten (10) districts in Nairobi and Kiambu; KARI – Muguga North which is a referral centre for control and management of livestock diseases of national importance namely, tick-borne diseases like, East Coast Fever, rinderpest and rinderpest-like diseases and contagious bovine and caprine pleuropneumonias among others; KARI – TRC, Muguga which has responsibility for research in tsetse fly – transmitted diseases in both livestock and human beings; KARI – Tigoni Research Centre which has the strategic mandate for potato research in the country; National Agricultural Research Laboratories at Kabete (NARL Kabete) whose mandate is in Bio- technology; KARI – Thika which has a

mandate to conduct research programmes in support of the national horticultural industry; KARI-Kitale, which is responsible for carrying out programmes to promote agricultural development in fifteen (15) districts of Rift Valley; KARI-Kakamega which is responsible for implementing adaptive research programmes in support of nineteen (19) districts in Western, Nyanza and Rift Valley Provinces; KARI-Kibos, which implements the national strategic research on cotton and rice production in areas West of Rift Valley and research related to Lake Victoria Management in collaboration with other Institutes and Ministries; KARI-Kisii, which is responsible for implementing programmes in support of agricultural development in sixteen (16) districts in South Nyanza Province and part of South Rift Valley; KARI-Naivasha, which addresses all aspects of nutrition/feeding, breeding and general management of dairy and dual-poultry; KARI-Embu, which is responsible for implementing programmes in applied and adaptive research in support of eighteen (18) districts in Central and Eastern Provinces; KARI-Katumani, which carries out research in support of fourteen (14) districts in Eastern and Rift Valley Provinces; KARI-Mtwapa, which carries out research in support of nine (9) lowland districts of the Coast Province; and lastly KARI- Marsabit, which has mandates for implementing programmes in support of agricultural development in six(6) districts in North Eastern province and KARI - Matuga

1.2 Statement of the problem

In Kenya performance contracting is the latest of the government's reform initiatives in response to public service delivery challenges. The concept emanates from the realization that public agencies are not clear about their goals. This lack of clarity can lead to implementation of wrong goals which result in poor or declining performance. Performance contracts are therefore meant to clarify the goals and objectives of public agencies, including their obligations and responsibilities and measure the extent of achievement of each objective. Kenya Agricultural Research Institute (KARI) where the study will be conducted is one of the state owned enterprises that have been under performance contracting since 2005. The pertinent research question however, is: Does the performance contracting strategy fulfill the objective of helping it achieve its organizational goals? So far, no study has been carried out to establish whether the

strategy has had any meaningful impact on the operations of KARI. This study thus sets out to fill that knowledge gap by undertaking to evaluate the effect of performance contracting as a performance management tool in the achievement of organizational goals of the institute. The problem merits investigation because the government of Kenya has invested heavily on the concept. KARI being an expansive institute will be quite representative of the public sector which has since 2005 been under performance contracting. It is through this concept that the government hopes to achieve the targets set out in its Vision 2030 strategy.

1.3. Objectives of the study

1.3.1 General objective

The main objective of the study was to evaluate the effect of performance contracting as a performance management tool on the achievement of organizational goals.

1.3.2 Specific objectives

The specific objectives of the study were to:

- i. determine whether KARI while implementing the performance contracting strategy observed the basic principles and philosophy of Performance Contracting as a performance management tool;
- ii. establish the effectiveness of performance contracting in the achievement of KARI's organizational goals; and
- iii. Determine the challenges and constraints faced by the performance contracting strategy in KARI and how these challenges and constraints, if any can be eliminated.

1.4 Research questions

The study attempts to answer the following questions:

- i. Did KARI in implementing the performance contracting strategy observe the basic principles and philosophy of performance Contracting as a Performance management tool?

- ii. Does performance contracting as a performance management tool clarify goals and objectives of KARI and measure the extent of achievement of each goal and thereby enable the institute achieve its organizational goals?
- iii. What are the challenges and constraints faced by the performance contracting strategy at KARI and how can they, if any be eliminated?

1.5 Significance of the study

This study will be of value to all persons interested in the better performance of the public sector in Kenya since a greater part of this sector has adopted the concept of performance contracting. Thus an evaluation of the effect of this concept on the achievement of organizational goals would provide a good direction in the management of the public sector. Secondly, human resource practitioners, consultants, employees and students of management will find the study important because it will enable them understand the effectiveness of performance contracting as a performance management tool. It will also be as basis for further studies. Thirdly and probably most important is that the study will be of use to Kenya agricultural research institute (KARI) where the study will be carried out. KARI may wish to know and understand whether the concept of performance contracting as implemented by the institute assists it in achieving its organizational goals. Because of declining global funding for agricultural research, KARI has recognized the need for building institutional capacity towards proper management of existing scarce resources for improved efficiency and effectiveness. (KARI strategic plan, 2009-2014). Performance contracting is the performance management tool that KARI has adopted in its management of the scarce resources available to the institute.

1.6 Scope of the study

This study confined its findings to performance contracting as implemented by KARI and its effect as a performance management tool on the achievement of organizational goals. The reason for this being that it could not be possible to extend the scope of the study outside KARI because the costs and time involved in the collection and analysis of data would have been too much for a study of this kind. However, some reference was made

by way of literature review to other institutions and countries outside KARI and Kenya respectively where performance contracting had been adopted.

1.7 Limitations of the study

The major limitation of the study is that the measurement of the variables was largely qualitative. This means that the findings and conclusions made were based on the perceptions of the respondents on the variables considered. Secondly the respondents were limited to KARI employees who were under the performance contracting program which may not be fully representative of all organizations considering variations of organizations in terms of structure, culture, and demography of its employees among others.

1.8 Delimitations of the study

A larger sample size of 31.4% was taken so as to enhance the confidence and reliability of the qualitative data collected. KARI has twenty two (22) main research centers and fourteen (14) sub-centers strategically located country-wide. Thus the expansive nature of the institute makes it quite representative of the public sector where performance contracting as a concept had been adopted.

1.9. Operational definition of terms

Public interest- refers to the pursuit of 'efficient' allocation of resources.

The Government-means just the central government and sometimes local government.

Deregularization- refers to less or no direct intervention by the state in the running of state corporations.

Liberalization-refers to changes which introduce competitive pressures where they have hitherto been absent. Privatization and deregularization often results to liberalization.

Globalization-means international interaction

Agency - refers to state owned enterprises as government agencies

CHAPTER TWO

LITERATURE REVIEW

2.1. Performance contracts: Definitions and Concepts

In broad terms, Performance contracts are defined as written agreements between state-owned enterprises managers, who promise to achieve specified targets in a given, usually short, time framework, and government, which usually promises to award achievement with a bonus or other incentives. Performance Contracts (PCs) are thus a variant of pay-for-performance or incentive contracts, which are often used to motivate managers in private firms. (Shirley and Xu, 2001). Nellis (1989) states that performance contracts are negotiated agreements between Governments as owners of a public enterprise and the enterprise itself in which the intentions, obligations and responsibilities of the two parties are clearly set out. England (2002), on the hand, asserts that the aim of a performance contracting is to address economic, social, or other tasks that an agency has to discharge for economic performance or for other desired results. It organizes and defines tasks so that management can perform them systematically, purposely and with reasonable probability of accomplishment.

Organizations all over are established to provide services or products to society. Once an organization has identified its mission, has agreed on a vision and has identified the strategic business objectives that are required for a business to be competitive and that align with the organization's mission statement, the organizational objectives are cascaded down the organization to ensure that all organizational activities contribute to the achievement of the stated organization objectives. Performance based contracting has been identified by both private and public sectors as an effective way of providing and acquiring goods and services within available budgetary resources (Mapelu 2005, NPR, 1997). They have been suggested as a way to improve central government agencies as well as state-owned enterprises. France is the one that pioneered their use in the 1970s and New Zealand, has used incentive contracts for Ministries and other government bodies. By 1997 PCs had been tried in more than 50 countries. The World Bank (1995) found 565 PCs in 32 developing countries as of June 1994, where they were principally used for large utilities and other monopolies and another 103,000 in China where they

were applied for state-owned manufacturing enterprises (Shirley and Xu, 2001). Performance Contracts, also referred to as performance agreements by Armstrong (1999) define expectations, that is; the results to be achieved and the competencies required to attain these results.

As part of the performance orientation in Kenya, the purpose of performance contracting is to clarify the objectives of service organizations and their relationship with the government. Performance contracting is also intended to facilitate performance evaluation based on results instead of conformity with bureaucratic rules and regulations. The setting of specific performance targets, in a format that can be monitored, is intended to provide a basis for evaluating performance and improving accountability in the public sector (GOK, 2004).

Evaluation of the performance of government agencies falls under the approach which is based on measurements of achievements against targets agreed upon at the beginning of a contract. Usually it involves a formal agreement and it is common in professionally run organizations. The other approach involves measurement of achievements based on the criteria and targets developed at the end of the performance period and are more comprehensive and useful for future projects (Trivedi, 2004)

2.2. The reason behind performance contracts.

A widespread characteristic of public enterprises the world over is financial weakness and losses requiring heavy transfers from government revenue, leading to macroeconomic effects such as government deficits, credit expansion and inflation. At the microeconomic (enterprise) level, losses cause illiquidity, shortage of working capital and down scaling of operations, inability to finance asset replacements, technological observation, lack of attention to staff development, and excessive capital gearing. Losses also make the enterprise financially dependent on the government and for more subject to interference and operational controls; managers cannot then be made accountable.

There is a growing consensus that the root problem in the public enterprise sector is lack of incentives. Public enterprise managers have little incentive to be efficient because they are usually protected from competition and, in any case, managers are not rewarded

for good performance or penalized for bad performance. Trivedi (2005) says that lack of incentives is visible in many ways:

- Many public enterprises are given monopoly rights in the domestic market and protected from foreign competition in the belief that this will result in economies of scale;
- If public enterprises make losses, this is attributed to their social goals, and the government continues to provide subsidies and to guarantee bank loans. As the cost of pursuing social goals is not calculated, subsidies cover not only social goals but also inefficiency, extravagance and wastage. Their budgets are “soft”;
- There is a lack of emphasis on economic and financial efficiency, in the mistaken belief that these are important only for private firms;
- Public enterprises are given preferential treatment in many ways in privileged access to capital, often at low or nil cost, in exemptions from certain taxes, in allocations of land, mineral rights and other scarce resources, in allocations foreign exchange and import licences (where these are still centrally controlled);
- public enterprises are used by politicians for a variety of purposes which are incompatible with their productive responsibilities, such as acting as employers of last resort and as instruments for the control of inflation (by ad hoc price controls, and by stop go capital funding).
- These side-functions destroy the integrity of the enterprise;
- In economies in transition to market-based management, property rights are not well defined and upheld, resulting in spontaneous privatization or appropriation of enterprise assets;
- Managers are not rewarded for excellent performance, nor are they hurt by bad performance. They usually enjoy civil service security of tenure. Discipline is generally lax, and so is accountability for results.

There are two broad approaches to creating incentives. The first is promoting competition from other firms. This is effective only if public enterprises which cannot compete are discontinued. This is bitter medicine, whether it is taken as part of a restructuring exercise preparatory to privatization or later, when the enterprise is under private ownership.

The second is performance contracting, i.e telling managers exactly what results they are required to produce, giving them the freedom to do whatever is necessary to get those results (within certain legal and regulatory limits) and offering them real incentives for doing so, or penalties for failure.

These two approaches are complementary and mutually reinforcing. They are not substitutes for each other. Performance Contracting alone does not create competition; nor does competition tell managers what they have to do (when they have social as well as commercial functions) or free managers from interference and red tape.

Thus performance contracts are part of the wider result based management systems (RBM) which are meant to ensure that public sector is transformed into being more focused and responsive to the needs of those it serves. The result will be a sector directing its energies towards delivering targeted results for Kenyans and utilizing resources more productively.

Rapid results initiative (RRI), like Performance Contracts, is also another performance management approach that is result based. It refers to a performance methodology designed to accelerate implementation of planned activities and deliver results. The premise of RRI is to create a context for learning and for enhancing implementation capacity, by helping organizations work on sharply defined 100 –day initiatives that dovetail into annual work plans and strategic plans. It is commonly referred to as 100 – day rapid results initiative (RRI). Performance contracts (PCs) and Rapid Results Initiative (RRI) are complementary concepts.

Performance contracts in the context of public enterprises first originated in France in the 1960s and 1970s and in the UK and New Zealand in the 1980s. The 1990s and 2000s have all witnessed a near total adoption of the concept. (Trivedi 2007)

2.3. The design and development of performance contracts

Trivedi (2007) says that performance contracts as performance improvement tools should have the following salient features:

- i. Performance information system: This refers to the need for a reasonable balance of information between the Government the state-owned enterprise which are the two parties, in the process of negotiating performance targets;
- ii. Performance evaluation systems: Consists of performance criteria to be used to evaluate performance;
- iii. Performance incentives/sanctions system: Is a guide on how to reward desirable and/or punish unwanted performance results. It is a system that links rewards/sanctions with measurable performance.

Although experts vary on the specific sequence of steps in designing a result – based management system like a performance contract, all agree on the overall interest. Before working on the content's of a PC document, it is important to be clear on the structure of the document. A standard performance contract as presented, by the Public Sector Reform and Performance Contracts secretariat (PSR&PC, 2005) comprises of the following:

- i) Mission of the government agency
- ii). Vision of the government agency
- iii) Objectives of the government agency
- iv) Commitments of the agency containing
 - performance targets (criteria and criterion values) for the current year
 - Actual performance for three previous years and projected performance for three years in the future
- iv) Commitments of the government: Delegation of powers and assistance from the government.
- v) Frequency of monitoring and information flow.

2.3.1 The role of the Mission Statement

Clarity of mission may be the single most important asset for a government organization (Osborne and Gaebler, 1992) The role of a mission statement is to focus attention on the main purpose of the organization and align organizational goals, priorities, and practices with it. Mission and philosophy is the starting point in business; A business is not defined by its name, statutes, or articles of incorporation. It is defined by the business mission. Only a clear definition of the mission and purpose of the organization makes possible clear and realistic business objectives (Drucker, 1973). Drucker goes on to warn that the management that does not ask: 'what is our mission?' when the company is successful, is in effect, smug, lazy and arrogant. It will not be long before success will turn to a failure". Lack of mission (hence, lack of vision) has been rated by management experts as a major cause of business failure. This is probably as true in the public sector as it is in the private sector. Osborne and Gabeler (1992) have claimed that the choice boils down to a mission – driven government as opposed to a rules/procedures- driven government. Another name for mission driven government is result- based government.

A sense of mission is essentially an emotional feeling by the people of the organization; that is, capturing the emotional support of its people. Mission planning is where strategy, organization, and human resource issues come together. It requires managers to take a holistic view of their organization and its environment before developing a plan of action (compbell and Tawadey, 1990)

There are no hard and fast rules about developing a mission statement; however, the mission statement of an agency should include the following: Reason for the agency's existence, the core activities of the agency and its focus for action. A well – formulated and effective mission should be:- succinct and inspiring, clear and challenging, a beacon when all else is up for grabs, and able to prepare the agency for the future while honouring the past.

2.3.2 The role of the Vision Statement.

This is the succinct statement of the cooperate vision, describing how the management envisions the business in the future and addresses the questions on "why do we exist," "what do we want to become in the future," and "how will we get there".

2.3.3. Drafting the objectives of the organization.

It is important to remember that the objectives of the government agency are expected to flow out of the mission statement. The sequence should ultimately dovetail into performance targets and criterion values as indicated in the flow below:



The steps in drafting objectives should be organized to cover the following attributes: First, ask what are the important things the government agency is expected to achieve to fulfill its mission. For example if “making the citizens the most healthy humans alive” is the mission of the agency; the agency has to ask what actions within its jurisdiction (and control) can contribute to this mission. This list will yield a set of objectives for the agency; secondly categorize the entire set of objectives into long-term and short-term objectives. The idea being that the achievement of short-term objectives will automatically (and eventually) lead to the fulfillment of long – term objectives. Thirdly, prioritize within each category of long-term and short-term objectives. Fourth; make sure that these objectives cover both quantitative and qualitative aspects of the state owned enterprise and static as well as dynamic aspects of the government agency’s operation. Fifth; keep the number of objectives to a manageable number. Try to merge some of them or drop them if they are not of great importance to the mission. Sixth, if some objectives appear to contradict each other, eliminate the contradiction. if that is not possible, highlight the trade offs. Lastly, the objectives should focus on outcome and not processes, should not be duplicative, should be fair to the country and fair to the manager.

2.3.4. Performance targets

Target setting is the centre piece in the exercise of performance evaluation. Setting of targets for state – owned enterprises involves reviewing the annual operating plans of the

agencies including budgets, identification of cost and profit/efficiency centres, and negotiating agreements to improve performance by way of agreeing to a set of targets for the enterprise management. This is tantamount to concluding in quantified terms “what is good performance for a specific enterprise?”. Target setting is quite critical because it provides an opportunity to the agency management and the evaluating agency to clarify the enterprises management objectives. It also helps to clarify the perception of the management about their goals, while on the other hand, it Compels the evaluating agencies to take into account, and quantify the social cost an enterprise is incurring. The setting of financial targets for example provides agency management with some protection against the possibility of having conflicting obligations imposed on the agency. Target setting bolsters management autonomy in that it reduces the possibility of external intervention in the process of management. While the setting of annual targets is not a new concept, there is a difference in designing a performance contract in that the areas in which targets focus are results oriented not process oriented. Performance targets represent the best the enterprise can achieve in the expected future and they should be able to challenge management and show improvement over the previous performance. Very low targets have no incentive value or effect, while very high a target as perceived by the managers leave the managers alienated and de-motivated.

Performance targets are based on performance criteria or indicators with clearly defined criteria values and weights. These targets should be comprehensive; that is covering all significant performance areas; they should be relevant, that is, related to the mandate of the agency; they should be specific, realistic simple, easily understood, attainable and measurable; lastly, performance contract targets should be benchmarked to past trends and/or performance of correspondent organization.

2.3.5. Performance criteria

An attempt should be made to include the criteria that measure managerial performance in the following areas:

i) Static efficiency criteria, which measure how well the agency or the program is making use of its existing resources. They include performance indicators relating to quantitative and qualitative aspects of the state-owned enterprises operations.

Table 1: Example of quantitative measure of static efficiency

Aspect of agency performance	Example of a criterion	Target	Government agency country
Quantity	Number of services provided	Increase the number of completions effected to 5,910	Government property lawyers
Physical efficiency	Service provided per unit of input	Process 55,766 travelers per person year	Revenue Canada, Customs and Excise, Port operations
Financial efficiency	Meet a financial target, such as recovering the full cost of operations through fees	Achieve a current cost operation profit of £8 million	Her Majesty's Stationery Office, United Kingdom

Source, Trivedi,2005

Table 2. Example of qualitative measures of static efficiency

Aspect of agency performance	Example of a criterion	Target	Government agency, country
Service quality (Timelines)	Service provided within approved time frame	Pay 80 percent of new Job Search Allowance claims within 2 days of the client lodging their first income statement	Social Security, Job Search Allowance, Australia
Service quality (Accuracy)	Service provided lacks defects	Provide a service that insure that in 90 percent cases the customers is given technically correct answer in a form that is understandable	Inlaid Revenue, Tax Information Service, New Zealand
Service effectiveness	Service provided is appreciated by the clients	Institute surveys of dislocated worker customer satisfaction and achieve 90% satisfaction level	Department of labor, USA

Source,(Trivedi 2005)

ii) Dynamic efficiency criteria

Many activities of government agencies impose immediate costs on their budgets and yield results only sometime in the future, for example repair and maintenance, research and development, training, automation, work environment, employee satisfaction, service delivery innovations and safety measures, corruption eradication, HIV AIDS management and adherence to statutory requirements among others.

iii) Implementation of modernization (restructuring plans).

This is an important aspect of managerial performance and deserves special attention in the context of ongoing reform of the state owned enterprises. Thus performance criteria that measure effective and timely implementation of the modernization plans should be included in the list of criteria included in a performance contract/agreement.

iv) Project implementation

Failure to meet target dates in the execution of projects has a great hidden cost. This cost may not be reflected in the current financial statements of the government, but nonetheless it adversely affects the country's welfare in the long run. It may, therefore, be desirable to include indicators that measure the efficiency of execution of large projects under the watch of the concerned state corporations, for example construction of hospitals, roads, schools and parks.

2.3.6 Performance indicators and assignment of weights.

Whenever there is more than one indicator, the concerned state agency must decide what the relative priorities are so that time is more effectively allocated in achieving the priorities. Thus weights assigned to the criteria must correspond with the stated priorities in the objectives. The weights should reflect the perceived relative importance of the various criteria in the judgment of the concerned state agency. The criteria listed in the performance contract should cover important qualitative aspects of performance because not covering the qualitative aspect listed in Performance Contract implies assigning that criterion a weight of zero. An example of qualitative aspect would be customer satisfaction with the agency's services shown at Table 2. Such qualitative criteria should in all cases be translated into measurable quantitative indicators however subjective the exercise is. This is because if this is not done, then assigning weights would not matter.

If it is not feasible (although such instances are few) to translate qualitative criteria into measurable quantitative indicators, the performance contract should lay down a methodology for the evaluation of performance with reference to such indicators.

For each criterion target, values must be fixed for the current year. Second, it has to be decided at what points on the 5 point scale the target for the current year should be placed, that is, whether: Excellent, very good, good, fair, or poor. After deciding the current year's point, the values for the other points on the 5 point scale should be determined. There is no predetermined, theoretically justifiable rule to place the annual target at a particular point. In practice, however, the target is often placed on the 5 point scale either under point 3 or point 4. This is done in recognition of the fact that achieving the annual target can not be considered excellent performance. Furthermore, if the target were placed at point 5 on the scale, this would leave no incentive for the government agency to find ways to improve on its past performance (Trivedi, 2007)

For every performance criterion included in the performance agreement, we need to know the past level as well as projected future trends as shown at Table 3. By showing the past values, it ensures that the current target is not soft. This also forces the respective government agency to do some long term planning to come up with the future projections.

Table 3: Matrix of performance trends

Criterion	Units	Past Performance		Target	Future Projections	
		1996	1997	1998	1999	2000
1. Number of children immunized	Thousand	250	300	385	450	550
2. Increase in level of Hygiene Awareness	%	40	50	70	85	95
Construction of rural medical facility	Months	14	12	8	7	6

Source,(Trivedi,2005)

2.3.7 Commitments of the government

For the agency to deliver its part, it may need specified assistance from the government. Similarly individual departments and officers would need assistance from the concerned state owned enterprise for them to perform their part. Typically this would consist of greater autonomy and more delegation of power. However in designing this section of the performance contract care should be taken to ensure the list of the requirements is trimmed to the minimum. Secondly, only essential and critical demands should be made on the government and or state agency.

2.4. Performance evaluation

The last consideration in the performance contracting process is performance evaluation. Performance monitoring and information flow are important for performance evaluation. The focus should be on the modalities and frequency of periodic and annual evaluation. The process should lead to a reduction in the quantity of controls and an increase in the quality of control. It should be in addition, distinguish between performance evaluation which is carried out at the end of the contract period against annual targets, and performance monitoring which is carried out periodically to ensure that progress is being made and in the right direction, to obviate the possibility of any surprises.

Managing the interface between government and state – owned enterprises (SOEs) has tended to be problematic in developing countries reflecting the difficulty of balancing control and autonomy. Excessive controls and frequent political interventions and policy instability are some of the institutional problems of State-owned Enterprises cited in the literature.(Sherley (b) M.1989).

2.5. Performance contracting as an element of performance management

The performance contracting regime is not a substitute for overall performance management. It is merely one element of performance framework for generating desired behaviors in the context of devolved management structures which is part of an overall resource allocation system (OECD, 1999)

Armstrong et al (1998) defines performance management as a strategic and integrated approach to delivering sustained success to organizations by improving the performance

of the people who work in them and by developing the capabilities of teams and individual contributors. Thus the two see performance management in terms of performance improvement and employee development. Delbridge et al (1992) are quoted by Torrington and Taylor (1999) as saying that a key theme in Japanese thinking appears to be people development and continuous improvement or 'kaizen'. Jackson *et al* (2009) defines performance management as a formal structured process used to measure, evaluate and influence employees' job related attitudes and behaviours. Clarke (2005) also provides a useful definition of performance management stating that the essence of it is "establishing a frame work in which performance by human resources can be directed, monitored and refined, and that the links in the cycle can be audited"

Performance management is also seen as a means of getting better results from the organization, teams and individuals by understanding and managing performance within an agreed framework of planned goals, standards and attributes/competence requirements. (Armstrong, 1994)

Torrington et al (2008) expounds the concept further by arguing that it is no good having all the right people all in the right place, but not delivering the goods.

He avers that there is a general change of emphasis in attitude to the contract between the parties, away from a contract of employment towards a contract for performance.

Thus performance contracting as a concept has ingredients espoused in any performance management system but its application is a new phenomenon in Kenya and in the developing world generally. The concepts like targets, objectives, measurements, appraisals, structures and reviews much talked about in performance management forms the backbone of the Performance Contracting Strategy. It is a means through which an organization's performance can be enhanced

2.6. Effects of performance contracts on strategic aspects of management

Armstrong (1999) in his book, "A Handbook of Human Resource Management Practice" argues that performance management is strategic in the sense that it is concerned with the broader issues facing the business if it is to function effectively in its environment, and with the general direction in which it intends to go to achieve longer-term goals. The

traditional human resource management approach to enhancing individual performance has centered on the assessment of past performance and the allocation of reward. The rewards were provided in exchange for performance and this has been powerfully influenced by the trade union's process of collective bargaining and negotiation.

However, the influence of trade unions has now changed and collective bargaining does not dominate the management agenda as much as it used to. This is the most significant feature in the general change in attitudes about what we go to work for. Managements have been gradually waking up to this fact and realizing the scope for integration in a way that was previously unrealistic. Not only is it possible to say, 'performance is rewarded, one can now begin to say: performance is a reward'. The long-standing motivational ideas of job enlargement, job enrichment, and so forth, become more cogent when those at work are able to look for the satisfaction of their needs not only in the job, but also in their performance at the job. This subtle shift of emphasis is fundamental to understanding the strategic approach to performance. (Tarrington et al, 1999)

Performance Contracting as a Performance Management tool is essentially meant to enable organizations meet their strategic objectives because it informs employees about what is valued and provides information about whether the employee's behaviors and results meet the expectations of managers, colleagues and customers. The basis of Performance Contracting is the strategic plan. Public institutions are required to anchor their Performance Contracts on their strategic plans. The strategic objectives in strategic plans are required to be linked to Government policy priorities and objectives as set out from time to time, in such policy publications as the "National Development Plan" and the "Vision 2030" for Kenya. In the case of public institutions which do not have strategic plans in place at the time of preparing a performance Contract, development of a strategic plan should be included as a key performance indicator under the "Non-financial" performance criterion.(PSR & PC, 2005). It is therefore a strategically important performance management tool because it can enhance employee motivation and productivity, support strategic goals, and facilitate strategic planning and change. Instrumentality, valence and expectancy are key concepts in motivating employees. Effective performance management thus helps ensure that the organization's strategic

goals are linked to the performance goals of individual employees and their work teams. Armstrong (1999) says that the strategic aspect of Performance management can be integrated in four senses:

- (i) Vertical integration which refers to the linking or aligning business, team and individual objectives;
- (ii) Functional integration, which involves linking functional strategies in different parts of the business;
- (iii) Human resource integration, which involves linking different aspects of human resource management, especially organizational development, Human Resource Development and reward, to achieve a coherent approach to the management and development of people and;
- (iv) The integration of individual needs with those of the organization, as far as this is possible.

Writing on the same subject, Price (2007) avers that the process of assessment, which is a critical element of Performance Contracting, is an exercise in management power and control. It is a method by which an enterprise can evaluate its employees and feed back the organization's view on them. He further says that evaluation can be linked to 'stick and carrot' measures in the form of critical comment indicating the firm's disapproval, and incentives to reward and encourage 'good' performance in the form of enhanced pay and promotion prospects.

In Belgium, the strategic effects of Performance Contracts include new personnel statutes which have improved the performance orientedness of human resources management and increased the flexibility of allocating the right person the right job. Incentives for public servants to perform better are: promotion made according to performance criteria rather than to seniority, the threat of being dismissed after two negative evaluations, and limited performance-related pay. The renewal of the mandate of members of the supervisory

board and the management board being dependent on performance evaluation has been a major change and may act as an important incentive.(Bouckaert et al, 1999).

Behavioural consistency is a major focus for models of human resource management which hold that business competitiveness is improved by enhancing employee attitudes, behaviour and commitment. Armstrong (1992) argues that performance management should be ' a process or set of processes for establishing shared understanding about what is to be achieved, and managing and developing people in a way which increases the probability that it will be achieved in the short and longer term'.

Jackson *et al* (2009) is also quite clear on the question of performance management as a strategic tool. She argues that defining goals and their measures is an important part of the performance management process. They go further to demonstrate that goal setting can enhance productivity saying that, specifically, goals that are clearly defined, difficult but achievable, and accepted have a positive effect on productivity and performance. When goals have a direct and obvious link to strategic goals and to the firm's success factors, two benefits occur. First, employees better understand their organization's strategic focus and how their jobs fit with it. Second, the goals direct employee behaviors toward activities that are consistent and supportive of the organization's strategy. Most organizations make sure that individual and team goals are tied to organizational goals. She affirms her assertion by citing a recent survey that found that nearly 80% of respondents believed that their firm's individual and team goals were aligned at least to some extent with organizational goals.

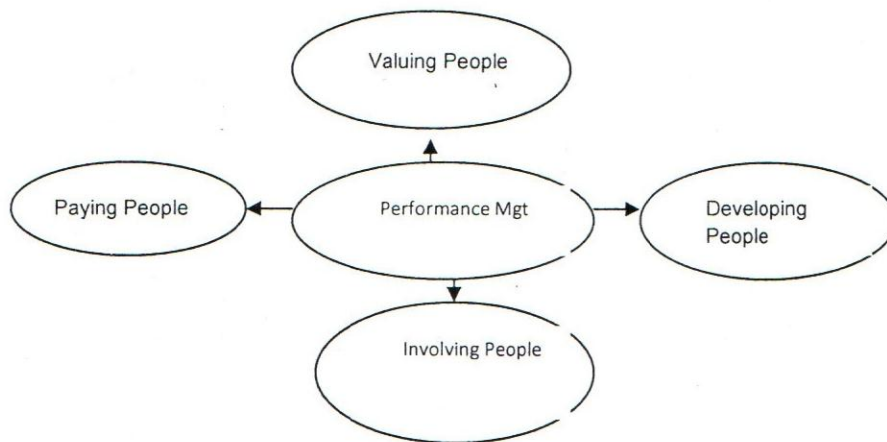
Price (2008) states that the business environment exercises both a direct and an indirect influence on the conduct of performance management. In the same vein Armstrong (1999) states that performance management concerns everyone in business; not just managers and thereby rejects the cultural assumption that only managers are accountable for the performance of their teams and replaces it with the belief that responsibility is shared between managers and team members. Therefore managers and their teams are jointly involved in agreeing what they need to do and how they need to do it, in monitoring performance and in taking action. Thus performance, management processes are viewed as part of an holistic; that is, an all embracing approach to managing for

performance which is the concern of everyone in the organization and is based on the belief that everything that people do at work at any level contributes to achieving the overall purpose of the organization. The holistic approach to performance management thus takes a comprehensive view of the constituents of performance, how these contribute to desired outcomes at the organizational, departmental, team and individual levels and what needs to be done to improve these outcomes. It is therefore concerned with what people do (their work), how they do it (their behavior) and what they achieve (their results) and it embraces all formal and informal measures adopted by an organization to increase corporate, team and individual effectiveness and continuously to develop knowledge, skill and competence. It is on this basis that Performance Contracting as a strategy lays great emphasis on the cascading of corporate targets to the lowest levels of management and in so doing every employees' activities are directed towards the achievement of corporate objectives

Hartle (1995) avers that a good performance management system should link with other key processes such as business strategy, employee development and total quality management. This tallies well with the assertion by Armstrong (1999) that integration is achieved vertically with the business strategy and business plans and goals and continues to explain that teams and individual objectives that support the achievement of corporate goals are in this case agreed. These as in the case of PCs take the form of interlocking objectives from the corporate level and down to teams and individual level and that steps need to be taken to ensure that these goals are in alignment. This can be a cascading process much talked about in PCs strategy, so that objectives flow down from the top and at each level, team or individual, objectives are defined in the light of high-level goals; but it should also be a bottom – up process; individuals and teams being given the opportunity to formulate their own goals within the framework provided by the overall purpose and values of the organization. He states that performance as a vertical integrating force envisages a situation in which objectives are agreed and not set and that the agreement should be reached through the open dialogues that take place between managers and individuals throughout the year. In other words, it needs to be seen as a partnership in which responsibility is shared and mutual expectations are defined. On the

question of horizontal integration, he says that it means aligning performance management strategies with other human resource strategies concerned with valuing, paying, involving and developing people and can be diagrammatically demonstrated as follows

FIGURE 1: PERFORMANCE MANAGEMENT AS FOCAL POINT FOR INTEGRATION OF HUMAN RESOURCE ACTIVITY



Source, (Armstrong, 1999)

The performance contracting negotiations are generally the interactive type whereby there are two parties who are not competing with each other and several issues to negotiate unlike where there are two parties with strictly opposing interests, negotiating on one issue. The strategic objectives are drawn from the mandate and the strategic plan of the public institution, and are expected to be: simple, specific, attainable, easily understood, realistic and time bound, not be too many, and focus on end results – and not processes. The negotiated targets which in all cases must anchor on the respective strategic plans are then cascaded down to the lowest management levels (PRS & PC, 2005). Compensation or paying people as referred to by Armstrong (1999) in the above model is a critical aspect of human resource management. Writing about performances and compensation, Price (2007) says that compensation in the form of pay, bonuses, stock options and other benefits can be limited to the achievement of particular goals. This wage/effort bargain can be traced back to Taylor (1964), the so – called ‘father of scientific management’. He developed a system of measuring work. Jobs were broken down into specific elements that could then be timed and rated. This scientific system

devised by Taylor (1964) became the basis of countless pay systems operating effectively alongside the routinisation and deskilling of work which is often associated with scientific management within the literature. Performance Contracting as a performance management tool espouses the Taylor principles. The Strategy starts with the setting of corporate objectives which are cascaded down through departments up to individual levels. Individual officers agree with their superiors on goals to be achieved within given durations and also the measurement criteria

2.7. Performance contracting and employee training and development

There is a strong link between Performance Contracting as a performance management tool and employee development. This is explicitly acknowledged by scholars who have written on this subject. The major objective of Performance Contracting is to improve the performance of staff. Armstrong (1999) in his treatise divides performance management into two parts, that is, performance improvement and employee development. He then continues to argue that performance improvement is not achievable unless there are effective processes of continuous (employee) development. Hackett (1998) argues that well-trained employees will have the confidence and the competence to produce better – quality goods and services, quicker and with less waste. He defines training as the acquisition of a body of knowledge and skills which can be applied directly to work of a particular type and continues to say that changing technology and patterns of work mean that training must be a continuous process throughout a working life since skills acquired for one job may have to be transferred, modified and supplemented for other jobs. If core skills common to a group of jobs can be identified, flexibility can be enhanced.

Carrell *et al* (1995) says that the developmental divide of the objectives of any performance management system encompasses developing employee skills and motivation for future performance. Writing about performance appraisal objectives, these scholars argue that almost all employees want to know how their supervisors feel about their performances. Once each employee's initial training gap had been identified and filled further training would only be given in response to specific changes in working methods or individual responsibilities. That is why previously, opportunities for development were largely limited to those identified as having potential for more senior roles. This is the principle Performance contracting as a Performance Management tool

focuses on. The strategy has an elaborate evaluation system in which set goals are compared with what has been achieved on the ground. This makes it easier for organizations to identify training needs for their staff.

2.8. Performance contracting and the involvement of people in decision making

Involving of people is identified by Armstrong (1999) as a major human resource activity that a performance management system integrates. Locke and Latham (1884) states that performance is caused by a person's intention to perform. Writing about the goal-setting theory, Beardwell. *et al* (2004) asserts that performance is caused by a person's intention to perform. He also states that goals are what a person is trying to accomplish or intends to do and that according to the theory, people will do what they are trying to do. What follows is normally clear:(i) A person with higher goals will do better than a person with lower goals.(ii) If someone knows precisely what they want to do, or is supposed to do, that person will perform better than someone whose goals or intentions are vague.

Using this prism it is argued that specific goals lead to a higher performance than general or vague 'do your best' goals. It is further argued that specific goals seem to create a precise intention, which in turn aids individual employees to shape their behavior with the same precision. This goal setting theory also serves to explain the relationship between a performance management system and employee motivation. Target setting is the critical aspect of Performance Contracting. It provides an opportunity to the agency management and the evaluating agency to clarify the enterprises management objectives. The exercise of performance evaluation is therefore based on the targets agreed upon.

2.9. Performance contracting and performance appraisal

Performance Contracting as a concept has borrowed heavily from the concept of Performance Appraisal. Carrell *et al* (1995) states that performance appraisal; popularly referred to as PA is the ongoing process of evaluating and managing both the behavior and outcomes in the Workplace. They continue to say that organizations use various terms to describe this process including terms like performance review, annual appraisal, performance evaluation, employee evaluation and merit evaluation. The term "annual appraisal" is also used by Hackett who says that performance appraisal is the name given to the regular (usually six – monthly or annual) formalized and recorded review of the

way in which an individual is performing in his job. He continues to say that the appraisal is normally carried out by the job-holder's immediate boss. He argues that in the past it tended to be seen purely as a management tool designed to make sure every employee was meeting company standards and avers that the history of its development parallels changes in management thinking along the continuum from 'autocratic' to 'democratic'. Performance reviews and evaluation of individual employees is the basis of Performance Contracting as a strategy. Gerry Radell, in his article 'employee appraisal' edited by Keith (1996) says that employee appraisal is the formal process for collecting information from and about the staff of an organization for decision making purposes; that one overriding purpose of this decision making is improving people's performance in their existing job. Randell then proceeds to define performance appraisal as the process whereby current performance in a job is observed and discussed for the purpose of adding to that level of performance. This is exactly what happens in Performance Contracting.

Carrrell *et. al* (1995) in his bid to draw a distinction between performance management and performance appraisal argues that performance management is a broader term than performance appraisal and that performance management became popular in the 1980s as total quality management (TQM) programme emphasized using all of the management tools, including performance appraisal, to ensure achievement of performance goals. Thus tools such as reward systems, job design, leadership Performance Contracting and training should join performance appraisal as part of a comprehensive approach to performance management.

Hackett (1998) has divided the traditional performance criteria or approaches to performance appraisal into three sets, that is: traits-oriented; result-oriented and competence based approaches. Jackson *et al.* (2009) on her part divides them into: Personal traits; behaviors and objective results. It is not Hackett (1998) and Jackson *et al* (2009) alone who are in agreement on the approaches or performance criteria; in an article "employee appraisal" edited by Keith (1996), Gerry Randell quotes Locke And Latham (1984:89) as having summarized the position by saying "performance is typically appraised in one of three ways: by the use of trait scales, by objective outcome measures,

or by behavioural observation". Tarrington *et al* (2008) on his part says that what is being appraised varies and might cover: personality, behavior or job performance.

Performance contracting as a strategy has adopted the result – oriented criteria of performance appraisal where the outcomes or results achieved by the job-holder form the basis of the appraisal (Hackett, 1998). Sales figures, wastage rate, complaints received and costs incurred are cited as examples of outcomes or results. Hacketts (1998) is somewhat echoed by Jackson *et al* (2009) who says that results criteria focus on what was accomplished or produced. She argues that results criteria may be appropriate if the company does not care how results are achieved, but they are not appropriate for every job. Such criteria are more common at the team and work unit level, because it is generally more difficult to identify results at the individual level that are not largely dependent on others.

This criteria is however criticized for missing critical aspects of the job that are difficult to quantify. For example, the number of cases handled annually by a lawyer can easily be counted, but these results do not indicate the quality of legal counsel, the difficulty of the cases and any important new legal principles. Another criticism of results criteria according to Jackson *et al* (2009) is that they can create a result – at all costs, mentality among employees. She cites a case of a collection agency that used the total dollars collected by agents as its sole measure of performance. Large sums of money were collected, but the agency ended up being sued because agents used threat and punitive measures to amass collection. Under the Performance Contracting regime mitigating factors are allowed which thereby improve on the result-oriented evaluation adopted from the Performance Appraisal concept.

Hackett (1998) also gives a further dimension to any discussion of performance appraisal by the split between open and closed systems. An open system is where the appraisee has the opportunity to discuss his performance with his boss and to contribute, to a greater or lesser extent to the record of the appraisal. Closed systems, on the other hand are those where the boss assesses and records without discussion. There has been a trend toward more openness in appraisal as pressure has increased for more employee participation and a more open approach to management. Hodgetts *et al* (2008), talking

about participative management approaches say that some approaches to improving productivity and quality are based on employees' more involvement in the effort by giving them greater authority in the work place. This explains the organizations adoption of the open appraisal system. The process and procedures of performance contracts are more of an open system appraisal. The strategy endeavors to enhance commitment by ensuring clarity of goals and objectives of public agencies and their respective employees, including their obligations and responsibilities.

Appraisal schemes also differ in the extent to which they are designed to be judgmental or developmental. According to Hackett (1998) judgmental systems are essentially evaluative; that is, they are about assessing past performance with a view to remedying deficiencies. They typically include some form of rating or scoring system to record how well (or badly) each person is performing. He on the other hand describes developmental systems as being more concerned to reviewing past performance with a view to learning how to do things differently in future. Developmental systems are often research "performance reviewers". However and as Hackett (1998) says many find it hard to entirely escape a judgmental element, particularly where the onus is on the boss to produce the report.

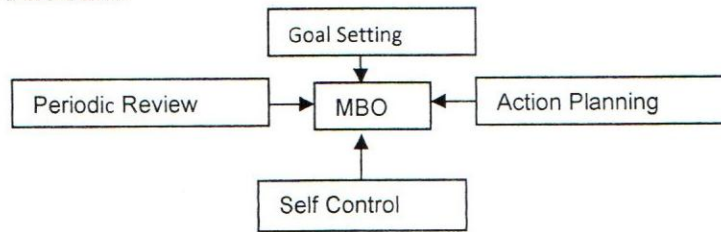
2.10 Performance Contracting and Management by Objectives (MBOs)

It is not easy to draw a line between the MBO strategy and that of Performance Contracting. The principles of the two strategies are the same. A look at the MBO process with a cross reference to PCs would suffice at this stage. Raia (1974) says that the origins of strategic performance management can be traced to the concept of management by objectives which he says is a technique to establish individual performance objectives that are tangible, measurable and verifiable. He continues to say that individual objectives are derived or cascaded from original goals. In his classic article in the "Harvard Business Review", Douglas McGregor, (1957), a major contributor to the behavioural sciences added his voice to a number of criticisms that were being leveled against the traditional appraisal programs that focused on personality trait for evaluating subordinates. Flippo (1984) gives an analysis of the events that preceded the management by objectives (MBO) appraisal system. He says that in all of the methods of

traditional and systematic appraisal, the manager is sitting in judgment on the performance of subordinates, hoping to obtain an impartial, objective, factual and acceptable measurement score. Though an attack has been mounted upon the low reliabilities and validities of traditional systems, the fundamental criticism has been based on the judgmental role of the manager and the antagonistic response of the subordinate. McGregor's new approach to appraisal was based upon an approach suggested by Peter Drucker in 1954. Instead of sitting in judgment, the superior should devote attention to establishment of goals, so that subordinates can exercise self-control in pursuit of these goals – management by objectives. Fillipo (1984) continue to say that though early efforts inspired by McGregor led to subordinate self-determination of goals followed by self-appraisal of subsequent accomplishment, such programs have evolved into ones where management takes a more prominent role. Early efforts tended to enter the firm through the personnel department as a program for motivating subordinates. Admitting the increment in motivation, management was nevertheless concerned that a multitude of individuals “doing their own things” might not add up to the common good of the organization. Consequently, modern Management by Objectives approaches tends to emphasize a participative but joint determination of objectives, followed by a participative but joint evaluation of success in periodic interviews. Thus, writing several years later, Weinrich and Koontz (1994) have defined Management by Objectives (MBO) as a comprehensive management system that integrates many key managerial activities in a systematic manner and that is consciously directed toward an effective and efficient achievement of organizational and individual goals.

Dessler (2008), asserts that Management by Objectives (MBO) requires the manager to set specific and measurable goals with each employee and then periodically discuss the latter's progress towards these goals. Carrell. *et al* (1995) is even clearer in his analysis of the concept of Management by Objectives program. He says that one of the most widely used performance appraisal, methods is Management by Objectives. He continues to say that although individual approaches may vary somewhat, most Management by Objectives programs contain the same essential elements which he illustrates in a model shown below.

FIGURE 2: MBO PROCESS



Source, Carrell et al (1995)

The MBO essential elements as articulated by Carrell *et al* (1995) tallies very well with what Dessler (2008) calls the six (6) steps consisted in the MBO process and which he says form a comprehensive and formal organization wide goal setting and appraisal program. Performance Contracting as a system to a greater extent adopted the principles of the MBO process as presented by Carrell and Dessler. The first principle involves the setting of organizational goals which are established based on the firm's strategic plan. This is followed by the setting of departmental goals. Dessler (1995) says that department heads take these from company goals (for example a company's goal to boost 2010 profits by 20%) The third principle is discussing the departmental goals. Departmental heads discuss the department goals by subordinates at a department wide meeting. In other words, how can each employee contribute to the department? This is an equivalent of the interactive negotiation process of performance contracting between the Government and the agency, between the agency and its departmental heads and between heads of department and individual officers. The fourth principle is that of defining the expected results (set individual goals).Carrell (1995) says that at the individual goal-setting level, goals are mutually set by the employee and his or her manager. This is the major MBO principle adopted by Performance Contracting and is its major strengths, as there is general agreement that participation in decision making strengthens employee motivation and commitment. The fifth principle Performance Contracting as a concept borrows from the MBO process is that of performance reviews. Performance contracting basically comprises two major components, namely: the determination of mutually agreed performance targets and secondly, the review and determination of the periodic and terminal performance (OCED, 1999). This is a step where a department compares each employee's actual and targeted performance. It is called performance evaluation under

the performance contracting strategy. Torrington et al (2009) is quite particular when talking about performance reviews. He says that employees carry out ongoing reviews to plan their work, prioritize and also advise the manager well in advance if the agreed performance will not be delivered by the agreed dates. He further says that this joint employee/manger review ensures that information is shared. Performance contracting as a performance management tool calls this performance monitoring. Providing feedback is the last of the six (6) steps that forms the MBO process. Dessler (2008), says that at this step, department heads and employees discuss and evaluate the latter's progress. The major reason why state enterprises are adopting performance contracting is that the system is quite rich on the aspect of priority back feedback which is quite critical in performance management.

Autonomy is a major ingredient envisioned in the performance contract strategy (OECD, 1999). This brings with it the element of self control. The primary assumption of the MBO process is that employees will accomplish their goals if given management and organizational support. Inherent in this assumption is that those who are being appraised with MBO have a fairly high level of motivation, commitment and achievement drive. The implication here is that self-control is a critical ingredient in the MBO process (Carrell et al, 1995). Price (2007) describes MBO as a self-driven process with each person participating in setting their own goals and action plans. This he says results in greater commitment to their own objectives and an improved understanding of the process. Thus they are expected to control their own behavior in order to achieve performance targets.

2.11 Performance Contracting and Performance Measures

The traditional performance measurement systems were basically focused on the financial aspect where increase in profits or reduction in costs of production were almost the only indicators of performance. The focus has however shifted to that of strategic integrated system that are flexible to changes in the environmental. Strategic integrated systems incorporate strategic issues, in the performance measurements for example, the organizations, value and strategy, critical success factors or performance drivers, motivators and reward systems that encourages appropriate behaviors.

Armstrong (1999) says that performance measures are agreed when setting objectives. Thus it is necessary to define not only what is to be achieved but how those concerned will know that it has been achieved. He argues that performance measures should provide evidence of whether or not the intended result has been achieved and the extent to which the job holder has produced that result. Gatewood et al (2008) talks of numerous types of performance measures; for example, a supervisors rating or the numbers of goods produced by individual workers. Carrell M.R et al (1995) avers that the methods chosen and instruments (or forms) used to implement these methods is critical in determining whether the organization manages its performance successfully. Thus the performance appraisal method and instruments should signal the operational goals and objectives to the individual, groups and the organization at large. Armstrong (1999) has given the following as guideline for defining performance measures, that is: Measures should relate to results, not efforts; the results must be within the job holders control; measures should be objective and observable; data must be available for measurement; existing measures should be used or adapted wherever possible.

Gatewood et al (2008), says one way of presenting the various types of job performance measures is to group them into the following four categories according to the nature of the data gathered, that is: Production, which refers to quality and/or quantity of output; Personnel records, that is, absenteeism, turnover and related variables; training proficiency which refers to a specially development test or simulation of training information or activities development in training. Judgmental data, which refers to opinions (usually supervisor's) of subordinates' performance, is the fourth category of the data that defines performance. This classification by Gatewood et al (2008) bears some semblance with that of Armstrong (1999) who classifies performance measures into the following headings: Finance; that is, income, economic value added, shareholder value, added value, rates of return, cost; output, that is, units produced or processed; impact, that is attainment of standard (quality level of service), changes in behavior (internal and external customer) completion of work/project level of take up of service, innovation; reaction, that is, judgment by others, colleagues, internal and external customers; and

time, that is, speed of response or turnaround achievements compared with timetable, amount of backlog, time to market, delivery times. These performance measures can be used singly or in combination as a criterion measure.

2.12 Challenges in Performance Contracting

The process of performance contracting has not been easy to implement. In overall, the design of the contracts meets most international standards and national legal requirements but some challenges are still evident. It should be appreciated that despite all the parties involved in contract implementations and compliance monitoring, there will always be certain conflict situations or risks for which no mitigation measures have been provided in the contract (Kobia and Mohammed, 2006). In Kenya, most state corporations are not assigned adequate resources needed to meet Performance Contract targets. Thus most of problems experienced during the implementation of the performance contracts include lack of adequate resources, resources not being on time, some performance targets being highly ambitious and transfers of staff without consideration of their effects on the performance contracting strategy. (Kobia and Mohammed, 2006).

In Swaziland, the performance contracting strategy failed when that country allowed the formation of contract plans to be the prerogative and/or domain of outside consultants with little involvement of the enterprises' management and staff. Musa (2001) considers this situation very unfortunate since the management and staffs of the public enterprises shoulder the burden of implementing the provisions of performance contract agreements. Writing about the challenges facing performance contracting, Nellis (2006) states that the widespread use of consultants in the formation of contract plans, including the determination of mechanisms for their monitoring and evaluation, public enterprises management did not develop the necessary sense of ownership and commitment to the success of the enterprise contracts.

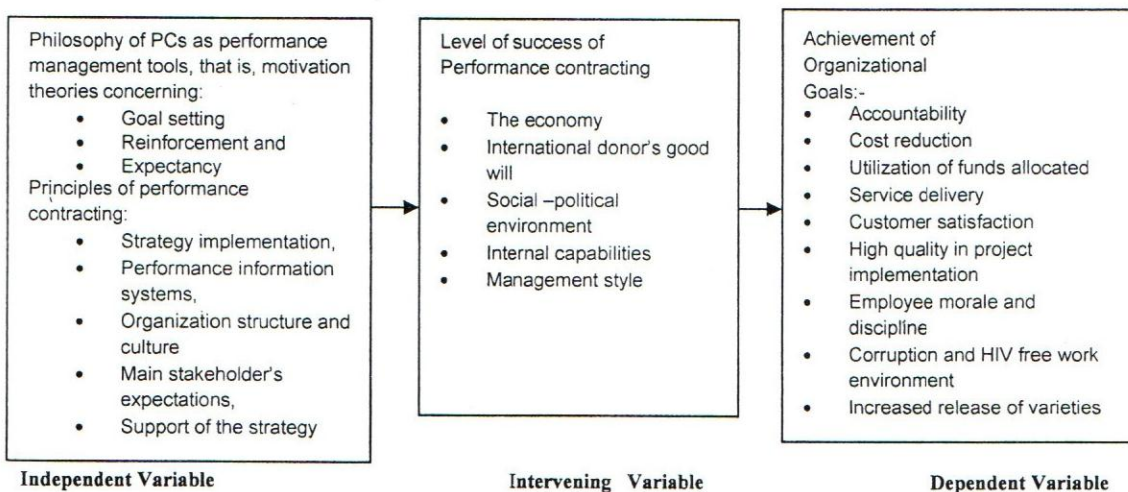
The other shortcoming on the Swaziland case is the low commitment of the contracting partners especially on the side of the government and /or the contracting ministries. The public enterprises appear to appreciate the importance of performance contracts unlike the controlling ministries which often do not show commensurate enthusiasm and thereby either delay the process or frustrate it altogether

2.13 The conceptual framework

The philosophy of performance management is anchored on motivation theories and specifically the three theories concerning goals, reinforcement and expectancy (Locke,1979; Vroom, 1964); on the other hand, the basic principles of performance management entails an effective process of continuous improvement and development, core competencies of the organization, communication, performance measurement, incorporating the performance management system in all the organization’s functions, line managers as drivers of the performance management system, objective performance appraisal and individual approach to performance among others. Performance contracting is one of the performance management tools used for enhancing performance. Any successful performance management system must thus incorporate the philosophy and principles of performance management. Thus Performance Contracting as a performance management tool has incorporated in its design and operations the mentioned philosophy and principles of performance management which are also discussed in detail in the literature review of this study.

In this research the Performance Contracting principles are the independent variables while the achievement of organizational goals is dependent on the effective application of these independent variables. Intervening variables includes the prevailing socio – political environment, internal capabilities, the economy, the international donors’ goodwill and the management style adopted by the organization.

FIGURE 3: CONCEPTUAL FRAMEWORK OF PERFORMANCE CONTRACTING



CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research design

This study adopted a survey design strategy which is considered appropriate in collecting generalizable information on people's opinions. The researcher thus used a qualitative approach in order to generate in-depth information from respondents to precisely reveal their perceptions, expectations, feelings and experiences. Significant amount of data were collected from a meaningful sample of the population using questionnaires.

3.2 Area of study

The area of study was at the Kenya Agricultural Research Institute (KARI). KARI has twenty two Research centres placed across the country but the study confined itself to KARI Headquarters and sixteen of the twenty – two KARI Research Centres. The centres were: KARI – Muguga South, KARI- Muguga North, KARI – Trponosomiasis Research Centre, KARI – National Agricultural Research Laboratories at Kabete, KARI – Tigoni, KARI – Thika, KARI – Kitale, KARI – Kakamega, KARI Kibos (Kisumu), KARI – Kisii, KARI – Naivasha, KARI – Embu, KARI – Katumani (Machakos), KARI Mtwapa, KARI Marsabit and KARI – Matuga. These research centres are strategically spread across the country.

3.3. Target population

The target population of this study was the 866 KARI staff who had signed performance contracts. According to KARI records, these consist of: 52 Top managers, 489 Researchers, 91 Technical Staff, 81 Technologists, 39 Administrative Officers, 38 Finance staff, and 76 staff from Supplies, Secretarial, and Library / IT cadres combined.

3.4. Sample size and sampling procedure

The study determined the sample size using Yamane (1997: 886) formula:

$$n = \frac{N}{1 + N(e)^2}$$

Where:

n is the sample size

N is the Target population

e is the margin of error for a 95% confidence interval.

Using the above formula we obtained a sample size of the study as follows:

$$n = 866 / (1 + 866(.05)^2) = 272$$

This amounts to about 31.4% of the target population. A minimum sample size of 10% is recommended for descriptive studies such as this (Gay, 1983); however, the researcher opted for a larger sample size so as to reduce the sampling error and thereby enhance confidence on the findings of the study (Mugenda and Mugenda, 2003). A stratified random sampling technique was used in the study in which the target population was divided into subgroups or strata and a proportional sample taken from each stratum. This is shown in the table below:

Table 4: Sample size per stratum

Strata	No. of employees	Probability	Sample size
Technologists	81	0.0935	25
Technical staff	91	0.105	29
Researchers	489	0.565	154
Administrative officers	39	0.0450	12
Finance staff	38	0.0439	12
Other staff	76	0.088	24
Top Management	52	0.060	16
TOTAL	866	1.0004	272

Source, Study survey (2011)

3.5 Data collection instruments.

This study based its findings on the assessment of the respondents on the variables that were considered. Thus a structured questionnaire was the basic tool for collecting the primary data. Sax (1968) defines a questionnaire as a means of eliciting the feelings, beliefs, experiences or attitudes of some sampled individuals. The questionnaire for this study comprised of closed ended questions. Questionnaires are preferred when it comes to collecting data especially when the respondents are literate as was the case with the targeted KARI population. The “drop and pick” method as described in Mugenda and Mugenda (2003) was used.

3.6 Data analysis techniques

The collected data were analyzed using both qualitative and quantitative techniques. The scaling method was used and the weighted mean was in particular utilized in arriving at the general opinions of the respondents regarding the effect of PCs on the achievement of organizational goals.

The data were tabulated into various categories, frequency distributions and analyzed using the weighted means. The information arising from the analyzed data was presented according to the sequence of the objectives of the study.

A five point Likert scale was used to rate the extent to which the objectives of the study reflected themselves. Scale points 5, 4, 3, 2 and 1 represented the equivalent of ‘Excellent’, ‘Very good’, ‘Good’, ‘Satisfactory’ and ‘Poor’ respectively. The mean scores were rounded to the nearest digit so as to determine the point where they fall on the Likert scale.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION.

4.1. Questionnaires Response Rate

The study targeted 272 staff who had been placed on performance contracts but the response rate was about 65%. The response rates per question are reflected in the respective tables presented by the study. The objectives of the study were to determine whether KARI while implementing the performance contracting strategy observed the basic principles of performance contracting as a performance management tool. Secondly, to establish the effectiveness of performance contracting in the achievement of KARI's organizational goals and thirdly, to determine the challenges and constraints faced by the performance contracting strategy in KARI.

4.2.0 Demographic profiles of the respondents.

The study considered the following demographic profiles of the respondents: job level, area of operation, gender, age, marital status, number of years worked in KARI and highest level of education. The purpose of these demographic profile questions was to determine the general characteristics of the respondents.

Job Level

The staff's response on the question of Job level was as shown in Table 5 below. About 62% of the respondents were from the middle level management while only 4% of the respondents were from the Top Management.

Area of operation

As regards the respondent's area of operation in KARI, 47.8% of the 178 staff who responded to this question were Research Officers, 12.9% were Technologists, 14% were Technical staff, 6.7% were from Finance, another 6.7% from Human Resource, 5.6% from Supplies and 6.2% from Library/IT as shown in Table 6 below.

TABLE 5: JOB LEVEL

Job level	Frequency	Percentage	Cumulative percentage
Top management	7	4.0	4.0
Senior management	18	10.3	14.4
Middle management	107	61.5	75.9
Supervisor	30	17.2	93.1
Others	12	6.9	100.0
Total	174	100.0	

TABLE 6: AREA OF OPERATION

Area of operation	Frequency	percentage	Cumulative percentage
Research	85	47.8	47.8
Technologist	23	12.9	60.7
Technical staff	25	14.0	74.7
Finance	12	6.7	81.5
Human resource	12	6.7	88.2
Supplies	10	5.6	93.8
Library/information technology	11	6.2	100.0
Total	178	100.0	

Gender, Age, Marital Status, Years Worked in KARI and Level of Education.

On the question of gender, 28.1% were female while 71.9% were male. On the question of age, only 0.6% of the staff were below 30 years, 16.9% were in the bracket of 30-39 years, 39.5% were in the bracket of 40-49 years, while 42.9% were above 50 years. On the question of marital status, 88.6% of the respondents were married while 11.4% were single. On the question of years worked in KARI, only 6.3% had worked for 5 years and

below, 17% were in the bracket of 6-10 years, 11.4% were in the bracket of 11-15yrs, 11.9% were in the bracket of 16-20 years, and 53.4% had worked in KARI for over 20 years. On the question of level of education of the respondents, 6.2% of the 177 staff who responded to this question had secondary education, 35% had Diplomas, 22.6% had a Bachelor's degree, 28.8% had a Masters degree while 7.3% had PhDs.

The results of the questions on gender, age, marital status, number of year worked in KARI and level of education are shown in Table 7, 8, 9, 10 and 11 respectively.

TABLE 7: RESPONDENTS' GENDER

Gender	Frequency	percentage	Cumulative percentage
Female	50	28.1	28.1
Male	128	71.9	100.0
Total	178	100.0	

TABLE 8: RESPONDENTS' AGE

Age	Frequency	Percentage	Cumulative percentage
20-29	1	.6	.6
30-39	30	16.9	17.5
40-49	70	39.5	57.1
50 and above	76	42.9	100.0
Total	177	100.0	

TABLE 9: RESPONDENTS' MARITAL STATUS

Status	Frequency	Percentage	Cumulative percent
Married	156	88.6	88.6
Single	20	11.4	100.0
Total	176	100.0	

TABLE 10: YEARS WORKED IN KARI

Years	Frequency	Percentage	Cumulative percentage
0-5	11	6.3	6.3
6-10	30	17.0	23.3
11-15	20	11.4	34.7
16-20	21	11.9	46.6
Above 20	94	53.4	100.0
Total	176	100.0	

TABLE 11: RESPONDENTS' HIGHEST LEVEL OF EDUCATION

Education level	Frequency	Percentage	Cumulative percentage
Secondary	11	6.2	6.2
Diploma	62	35.0	41.2
Bachelors degree	40	22.6	63.8
Masters degree	51	28.8	92.7
PhD	13	7.3	100.0
Total	177	100.0	

4.2.1: Observance of the basic principles and philosophy of performance contracting

This was the first objective of the study and the factors considered as determinants of the observance of the basic principles and philosophy of Performance Contracting were: training of staff on the concept of Performance Contracting, the PCs negotiation procedures, the implementation process of the strategy and support of the strategy by KARI senior management.

4.2.2: Training Methods and Ratings on their Effectiveness

On the question of training, the respondents were asked to indicate the method of training the organization used in enlightening staff about Performance Contracts. They were also asked to rate the effectiveness of the training received using a five point Likert scale with points 5,4,3,2 and 1 representing 'Most Effective', 'Very Effective', 'Moderately Effective', 'Satisfactory' and 'Not Effective' respectively. The results were as shown in Table 12.

TABLE 12: EFFECTIVENESS OF DIFFERENT METHODS OF TRAINING BY KARI

Training Methods	Most Effective 5	Very Effective 4	Moderately Effective 3	Satisfactory 2	Not Effective 1	$\Sigma(fi)$	$\Sigma(fiwi)$	$\Sigma(fiwi/\Sigma(fi))$
Workshops within KARI	5	25	28	17	2	77	245	3.18
Workshops outside KARI	4	15	7	2	1	29	106	3.66
Seminars	6	22	10	8	0	46	164	3.57
Job rotation	2	5	2	6	2	17	50	2.94
Training outside KARI	12	12	5	3	1	33	130	3.94
Attachment	3	5	2	1	2	13	45	3.46
Case study	2	3	3	0	2	10	33	3.30
Coaching by supervisor	3	9	15	9	3	39	117	3.00

It is clear from the table that the number of staff who had undergone some training on how to handle and utilize Performance Contracts as a management tool was quite low with workshops within KARI recording 77 staff member out of the 178 members who responded. Training outside KARI recorded only 33 staff while seminars as a mode of training had 46 staff. In overall, this was quite low considering the fact that the total number of respondents was 178. Workshops outside KARI and seminars as training methods were highly rated with mean scores of 3.66 and 3.57 respectively which represents 'very effective' since when rounded to full digit they fall on scale point 4 of the Likert scale. Trainings carried out within KARI had mean scores of 3.18, 3.00, and 2.94 which means that the respondents considered trainings conducted outside KARI to

be more effective than those carried out within KARI. Thus the institute need to improve on it's internal workshops and in doing that, they can use trainings carried out outside KARI as their bench marks since they are already popular with the KARI staff.

4.2.3: Negotiation procedures in signing of performance contracts.

The variables considered under negotiation procedures as a principle of performance contracting were the conducting of the strength, weaknesses, opportunities and threats (that is, the SWOT) status of the employees concerned; a supervisor/employee common understanding of the core business/objective Of the organization and about the finances/ human resource support to be availed, and an understanding of the weights assigned to specific performance indicators. Respondents were asked to rank the level of KARI's adherence to these factors using a five point Likert scale. Scale points 5, 4, 3, 2, and 1 represented 'Very high adherence' 'High adherence', 'Medium adherence', 'Low adherence' and 'None at all' respectively. The results of the responses were as shown in Table 13.

TABLE 13: KARI'S ADHERENCE TO NEGOTIATION PROCEDURES

Negotiation procedures	Very high adherence	High adherence	Medium adherence	Low adherence	None at all	$\sum(f_i)$	$\sum(f_i w_i)$	$\frac{\sum(f_i w_i)}{\sum(f_i)}$
	5	4	3	2	1			
SWOT status	8	32	66	43	20	169	472	2.79
Focus on core objectives	12	45	66	32	14	169	516	3.05
Performance indicators and assigned	19	54	60	26	10	169	553	3.27

On the question of the employee and his supervisor conducting the SWOT status of the employee, the mean score was 2.79. This is between low and medium adherence of KARI to this principle but when rounded to full digit, it stands at digit 3, that is, Moderate adherence. On the question of employee/employer's common understanding of

the core business of the organization and of the finances and human support to be availed, the mean score was 3.05. This is also a moderate adherence of KARI to this principle. The institute would do better if capability status of it's staff could first be conducted before engaging them in performance contracts.

Respondents were also asked to rank KARI's adherence to the principle of ensuring that the employee and his supervisor had an understanding of the weights assigned to specific performance indicators and what that entailed in regard to the performance targets to be agreed upon. The mean score on this principle was 3.27. This is above moderate adherence but more than half below high adherence. A high adherence to this principle would have provided an opportunity for the institute to clarify it's management objectives.

4.2.4: The Implementation process

The variables considered critical in the implementation process of performance contracts were: ensuring that the Vision, Mission and Objectives of the organization were well communicated to all employees; employees' good understanding of the concept of performance contracting and its importance; the setting of goals/targets and the question of rewards for achievement and penalties for failure being made known to employees during the Performance Contracts negotiation process.

The respondents were asked to rank the seriousness with which KARI considered the above principles while implementing the performance contracting strategy. The ranking was done using a five point Likert scale where scale points 5,4,3,2, and 1 represented, 'Most seriously', 'Very seriously' 'Moderately serious', 'Less serious' and 'Not serious at all' respectively.

The data on the responses regarding this principle were analyzed and the respective mean score derived as shown in Table 14.

TABLE 14: KARI'S SERIOUSNESS IN IMPLEMENTING PERFORMANCE CONTRACTS

Implementation process factors	Most Seriously 5	Very Seriously 4	Moderately Serious 3	Less Seriously 2	Not Seriously 1	$\sum(f_i)$	$\sum(f_i w_i)$	$\frac{\sum(f_i w_i)}{\sum(f_i)}$
Vision, Mission and Objectives	31	66	59	14	3	173	626	3.62
Concept of PCs	17	41	81	27	6	172	552	3.21
Setting of goals	17	54	62	32	7	172	557	3.24
Rewards/penalties	6	16	55	63	32	172	416	2.42

On the question of communication of the Vision, Mission and Objectives of the organization to all employees the mean score was 3.62. This rounded to full digit falls at scale point 4 which represents 'Very seriously'. This was the highest score among the four factors considered under the implementation process principle which means that the Vision, Mission and Objectives of KARI were well communicated and understood by staff. On the question of ensuring that the concept of performance contracting was understood by all levels of staff, the mean score was 3.21. This was quite close to the question of whether the setting of goals and negotiation of targets were carried out in a free atmosphere which had a mean score of 3.24. When rounded to a full digit, the two factors would fall on scale point 3 (i.e moderately serious) of the Likert Scale. The question on rewards for achievement and penalties for failure being made known to employees during the negotiation process scored quite low with a mean score of 2.42 which when rounded to the nearest digit falls on a scale point of 2 (i.e. less serious) of the Likert Scale. This was a strong negative statement by staff as regards this factor and KARI need to devise ways of rewarding staff that achieve their set targets and similarly penalize those who for reasons of their own making do not achieve their targets. Reward systems are traditionally known to be motivators that encourage appropriate behaviors. Penalties on the other hand can be imposed but after thorough consideration.

4.2.5: Support of the performance contracting strategy

The variables the study considered critical under this performance contracting principle were: the question of staff being provided with the necessary tools for work; incentives for work performance; compensations for extra effort put by employees and a visible support of the process by the senior management.

Respondents were asked to rank the frequency of occurrence of the above factors in KARI's performance contracting strategy. They were required to rank these dimensions on a five point Likert Scale where scale points 5,4,3,2, and 1 represented 'Most frequently' 'Very frequently' 'Moderately frequent', 'Less frequently' and 'None at all' respectively. The results of the responses are shown in Table 15.

TABLE 15: KARI'S SUPPORT OF THE PERFORMANCE CONTRACTING STRATEGY

Support factors	Most Frequently 5	Very Frequently 4	Moderately Frequently 3	Less Frequently 2	None at all 1	$\Sigma(fi)$	$\Sigma(fiwi)$	$\Sigma(fiw)/\Sigma(fi)$
Necessary tools	8	43	62	47	12	172	504	2.93
Incentives	3	11	55	52	51	172	378	2.20
Compensation for extra efforts	4	3	42	34	89	172	315	1.83
Support by senior management	19	49	55	36	13	172	542	3.15

KARI's support of the strategy by way of compensating it's staff for any extra efforts put was rated lowest by the 172 staff members who responded. This variable had a mean score of 1.83 which represents a 'Less Frequent' occurrence of this factor as a support that KARI offers to the strategy. Also the question of provision of incentives to staff as a way of encouraging them towards meeting their targets was lowly rated at a mean score of 2.20 which also represents a 'Less Frequent' occurrence of this factor. The low mean score against the two factors means that KARI rarely set aside funds for use as incentives to its staff. Provision of the necessary working tools by the institute was said to be 'Moderately Frequent' with a mean score of 2.98. This does not potent well for a

Research Institute of KARI's magnitude which need to do better in terms of providing working tools to it's staff. The tools here includes: computers, stationery, fertilizers, overall coats and gloves among others.

The senior management's support of the strategy was however considered to be slightly above average with a mean score of 3.15.

4.3.0. The effectiveness of performance contracting in the achievement of

Organizational goals.

The variables the study considered to be reflective of the effectiveness of performance contracting in the achievement of KARI's organizational goals were its impact on KARI's organizational structure and culture, measurement and evaluation of individual staff performance, performance information systems and on the achievement of specific organizational goals

4.3.1 Performance contracts' effect on organizational structure and culture

The factors the study considered critical in determining the performance contracts' positive impact on KARI's organizational structure and culture were the strategy's influence on the reporting structure, cross-divisional coordination, team work, discouragement of favoritism, involvement of staff in meeting performance goals (i.e participative decision making) and transparence in the organization's operations. The responses are illustrated in Table 16.

TABLE 16: THE STRATEGY'S IMPACT ON KARI'S ORGANIZATIONAL STRUCTURE AND CULTURE

Structure and culture factors	Mostly Effective 5	Very Effective 4	Moderately Effective 3	Less Effective 2	Not Effective 1	$\Sigma(fi)$	$\Sigma(fiwi)$	$\Sigma(fiwi)/\Sigma(fi)$
Reporting structure	11	56	70	28	7	172	552	3.21
Cross divisional co-ordination	10	47	73	35	5	170	532	3.13
Enhancing Team work	8	20	65	52	27	172	446	2.59
Discouraging Favoritism	11	21	41	49	48	170	408	2.40
Participative Decision-making	14	33	48	47	29	171	469	2.74
Transparency	14	40	60	32	26	172	501	2.91

The strategy had a moderately positive effect on the reporting structure and cross-divisional coordination of the Institute as reflected in the table. On the question of the impact of the strategy on team-work, involvement of staff in meeting performance goals and on transparency in the organizations operations, the mean scores were 2.59, 2.74 and 2.91 respectively which is a below average positive impact although when rounded to full digits, these scores fall on scale points 3 of the five point Likert scale which represents a moderate positive impact. This does not compare well with the question of the strategy's effect in discouraging favoritism where the mean score was 2.40. Rounded to full digit, this mean score falls under digit 2 of the five point Likert scale implying that the strategy had a minor positive effect on the factor of favoritism. Team work and involvement of staff in meeting organizational goals are critical ingredients of performance contracting as a strategy. Goals are what a person is trying to accomplish. If someone knows precisely what they want to do or supposed to do, that person will perform better than someone whose intentions or goals are vague (Beardwell et al, 2004). The institute therefore needs to develop these two critical ingredients of Performance Contracting.

4.3.2 Performance contracting and the measurement and evaluation of individual performance.

The critical factors that the study considered in the measurement and evaluation of individual staff performance were: a performance culture and behavior, prioritization of activities, and factors out of control of employees. Respondents were required to rank how well performance contracting has influenced the above mentioned performance measurement and evaluation factors using a five point Likert Scale where scale point 5,4,3,2, and 1 represented ‘Most Influential’, ‘Very Influential’, ‘Moderately Influential’, ‘Less Influential’ and ‘Not Influential’. The responses were as illustrated in Table 17 below.

TABLE 17: PERFORMANCE CONTRACTS INFLUENCE ON PERFORMANCE MEASUREMENT

Measuring factors	Most Influential 5	Very Influential 4	Moderately Influential 3	Less Influential 2	Not Influential 1	$\Sigma(fi)$	$\Sigma(fiwi)$	$\frac{\Sigma(fiwi)}{\Sigma(fi)}$
Performance culture	11	50	75	26	10	172	542	3.15
Prioritization	11	46	73	34	8	172	533	3.10
Factors out of control	9	32	71	41	18	171	486	2.84

The mean score on the question of the strategy’s influence on the creation of a performance culture and behavior within the organization was 3.15 which represent a ‘Moderately Influential’ status.

This was also the case with the PCs role in the prioritization of the organization’s activities. Its role in mitigating for factors out of control of the respective employees was rated lowest with a weighted mean score of 2.84 which is below the moderate effect. The implication here is that most staff are unable to meet their contractual obligations because

of factors outside their control. This could be issues like, receiving funds late or the institute's failure to facilitate them.

4.3.3 Performance Contracting and performance information systems

The variables the study considered critical under this factor were whether PCs had enhanced feedback and staff's knowledge in the measuring of qualitative targets. Respondents were required to rank how performance contracting has contributed in enhancing these information systems factors in KARI. They were to do the ranking using a five point Likert Scale where the scale points 5,4,3,2 and 1 represented 'Most influential' 'Very influential' 'Moderately influential', 'Less influential' and 'Not influential' respectively. The mean score for the two factors considered were 3.09 and 3.07 respectively. This is illustrated in Table 18.

TABLE 18: IMPACT OF PERFORMANCE CONTRACTS ON INFORMATION SYSTEMS

Performance information system factors	Most Influential 5	Very Influential 4	Moderately Influential 3	Less Influential 2	Not Influential 1	$\sum(fi)$	$\sum(fiwi)$	$\frac{\sum(fiwi)}{\sum(fi)}$
Enhancement of feedback.	15	45	67	30	15	172	531	3.09
Non-Measurable information	13	45	70	29	15	172	528	3.07

The strategy's influence in enhancing feedback to both staff and management was rated moderate. Similarly, it's influence in the measurement of qualitative targets like training, safety measures and corruption eradication was rated moderate.

4.3.4 Impact of performance contracting on set organizational goals.

The variables the study considered critical in the achievement of KARI's organizational goals were government controls (that is, organizational autonomy), the morale of staff, KARI's release of new varieties, project implementation, information technology, KARI's code of ethics, criteria for promotion of staff, staff services like pension schemes, safety measures, maintenance of vehicles and machinery, ISO certification and

publications in refereed journals. The respondents were asked to indicate how satisfactory Performance Contracts have been in enhancing the above mentioned factors and in doing so, they were required to rate the extent of the impact on a five point Likert Scale where scale points 5,4,3,2, and 1 represented 'Most Satisfactorily', 'Very Satisfactorily', 'Moderately Satisfactorily', 'Less Satisfactorily', and 'Not Satisfactorily' respectively. The responses to each of the above mentioned variables varied from 164 responses to 170 responses. The data on these variables were analyzed using the scaling method and the weighted mean scores as illustrated in Table 19.

TABLE 19: EFFECT OF PERFORMANCE CONTRACTS ON ORGANIZATIONAL GOALS

Organizational goals	Most Satisfactorily 5	Very Satisfactorily 4	Moderately Satisfactorily 3	Less Satisfactorily 2	Not Satisfactorily 1	$\Sigma(f_i)$	$\Sigma(f_i w_i)$	$\frac{\Sigma(f_i w_i)}{\Sigma(f_i)}$
Government controls	19	46	54	28	17	164	513	3.13
Morale of staff	7	35	56	43	28	169	456	2.70
KARI's release of varieties	22	45	63	27	10	167	543	3.25
Project implementation	15	40	61	35	19	170	507	2.98
IT networks	19	47	46	35	23	170	513	3.02
Code of ethics	14	38	55	38	24	169	487	2.88
Criteria for promotion	7	18	51	46	47	169	399	2.36
Pension Services	15	44	62	31	14	166	513	3.09
Safety measure	14	36	59	38	23	170	490	2.88
Vehicle and machinery	11	31	70	41	15	168	486	2.89
ISO certification	19	53	67	24	5	168	561	3.34
Publications in refereed journals	20	47	69	24	6	166	513	3.31

The PCs had a significant positive impact on ISO certification, publications in refereed journals, KARI's release of new varieties, government controls (i.e autonomy), and on IT networks all of which had higher mean scores of 3.34, 3.31, 3.25, 3.09 and 3.02 respectively. Rounded to full digit these fall under digit 3 of the Likert Scale which means that the PCs impact on these organizational goals was moderately satisfactory. Other factors had mean scores slightly below scale point 3 of the five point Likert scale as shown in table 19. This was interpreted to mean that the strategy's impact on the achievement of the set organizational goals was at moderate levels with the least effect being on its impact on staff promotions criteria and on the morale of staff which had mean scores of 2.36 and 2.70 respectively

4.4.0 Constraints of the performance contracting strategy

The constraints considered critical by the study were those of lack of common understanding between employee and supervisor on the core business/major objectives of the organization, lack of resources, poor communication, targets being too easy, targets being too high, no thoroughness on the monitoring of PCs, no rewards, no penalties, lack of proper training, training being concentrated on senior management alone, no coaching by supervisors, government controls and political influence.

The respondents were asked to state the extent these constraints were experienced under the performance contracting regime using a five point Likert Scale where scale points 5, 4, 3, 2 and 1 represented 'Most Largely Experienced', 'Very Largely Experienced', 'Largely Experienced', 'Rarely Experienced' and 'Not Experienced'. The data received were analyzed using weighted mean scores as shown in Table 20.

Lack of resources, non availability of rewards for meeting targets, lack of training and the issue of training only senior managers had a quite high mean score of 3.61, 3.65, 3.61 and 3.61 respectively. Rounded to full digit all these mean scores fall on scale point 4 which means that these constraints are experienced to a very large extent. Constraints like targets being too easy, and targets being too high on the other hand had a quite low mean score of 1.92 and 2.67 respectively which means that they are not critical hindrances to

the strategy. Political influence and government controls as constraints similarly had a comparatively low mean score of 2.85 and 2.98 respectively.

TABLE 20: CONSTRAINTS ON PERFORMANCE CONTRACTING

Constraints	Most Largely Experienced 5	Very largely Experienced 4	Largely Experienced 3	Rarely Experienced 2	Not Experienced at all 1	$\sum(fi)$	$\sum(fiwi)$	$\frac{\sum(fiwi)}{\sum(fi)}$
No common understanding	11	24	78	44	9	166	482	2.90
Lack of resources	34	52	63	18	0	167	603	3.61
Poor communication	20	35	63	34	13	165	510	3.09
Targets being too easy	4	8	25	66	66	169	325	1.92
Targets being too high	7	8	57	56	21	169	451	2.67
Monitoring	29	39	55	23	22	168	534	3.18
Rewards	61	39	33	18	17	168	613	3.65
Penalties	45	32	39	29	23	168	551	3.28
Training	43	53	48	12	12	168	607	3.61
Training only senior managers	58	41	36	17	18	170	614	3.61
Coaching	31	39	63	26	11	170	563	3.31
Government controls	28	35	47	24	35	169	504	2.98
Political influence	36	14	37	45	33	165	470	2.85

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of the study findings

The study had three objectives of first evaluating the extent to which KARI observed the basic principles of performance contracting as a performance management tool; secondly, the effect performance contracting has had on the operations of KARI and thirdly, the challenges and constraints the strategy has faced. On the question of the observance of the principles of performance contracting, the study considered training, negotiation procedures, the implementation process and support of the strategy as the critical factors and as shown in tables 12, 13, 14 and 15 which respectively summarizes the respondent's rating of the institute's observance of these principles, training had the least number of respondents simply because very few staff had had a training on how to utilize PCs as a performance management tool. The content of the training received however a quite high rating had with most of the mean scores being above digit three. The implementation process was rated moderate. Observance of negotiation procedures was similarly at moderate levels while support of the strategy by the KARI Management had the lowest rating. KARI's observance of basic principles of performance contracting was generally 'Moderate'.

The principle of the need to analyze the SWOT status of the employees during performance contracts negotiation process was in particular not well adhered to by KARI yet it is a very critical factor. It was rated lowest at the mean score of 2.79. Over 36% of the respondents were of the view that there was either no adherence or very low adherence to this factor. The implementation process of the strategy also failed to consider the factor of rewards/penalties for achievement or failure to achieve the set targets respectively. The effectiveness with which KARI observed these principles of performance contracting was rated lowest with a mean score of 2.42 which implies that the strategy was less effective on the factor. The support of the performance contracting strategy by KARI's senior management was generally below average/ moderate levels as reflected in Table 15. KARI's effectiveness in communicating the institute's Vision,

Mission and core Objectives which are also critical performance management principles was well rated by the respondents with a mean score of 3.62 implying that enough effort was made by KARI management to ensure that these were well understood by staff.

On the second objective of evaluating the effect of performance contracting on the operations of KARI, the research considered the strategy's effect on the following factors: structure and culture of the organization, performance measuring factors, performance information systems, and achievements of KARI's organizational goals. The mean scores on the above factors were generally concentrated around digit three (3) of the five point Likert scale which also represents a 'Moderate' effect. The strategy's failure to in particular positively influence the organizational structure and culture of KARI raises a lot of concern because as stated in the literature review of this study, the factor of structure and culture is among what forms the backbone of the PC strategy (Osborne and Gaebler, 1992). This could be attributed to KARI's moderate observance of the performance contracting principles as revealed by the study. The strategy however, had an impressive effect on KARI's release of new varieties, publications in referred journals and on the ISO certification processes all of which are quite critical to KARI's operations. In overall the strategy's effect on KARI's operations was moderate.

The study also considered the constraints performance contracting has faced and looked at the following critical factors which include among others communication, monitoring, coaching by supervisors, target setting, political influence and lack of resources. Lack of resources, concentrating trainings on senior managers alone, and failure to reward those who achieve their targets were rated highest as impediments to the strategy with mean scores of 3.61, 3.61, and 3.65 respectively. It was also clear that the critical factors of targets being too low or too high, and political influence were never considered constraints having scored the lowest mean scores of 1.92, 2.67 and 2.85 respectively. It was specifically gratifying to note that KARI's operations are to a large extent not influenced by the politics of the day.

5.2 Conclusion

The findings from the study indicate that KARI did not fully embrace the principles of performance contracting while implementing the strategy. The institute's observance of the strategy's principles which includes training, negotiation procedures, support of the strategy by the senior management and the implementation process procedures was only to a moderate extent. This moderate observance of the basic principles of performance contracting reflected itself on the moderate effect the strategy has had on the institute's operations.

The implication here is that performance contracting as a performance management tool is quite effective and is a critical ingredient in the government's reform agenda of both the central government and the state corporations. However, the strategy's effect on the operations of the agencies concerned would to a large extent depend on the successful implementation of the strategy. The study shows that the observance of the basic principles of performance contracting is directly proportional to the positive effect it would have on the organization's activities. The study also identified critical impediments to the strategy which includes lack of resources to implement activities, non availability of rewards for those staff who achieve the set targets and the issue of concentrating trainings on the subject of performance contracts on senior members of staff. It was also observed from the literature review that the strategy is a new phenomenon in KARI and Kenya generally. Thus its effect would be fully realized as the strategy gets domesticated.

5.3 Recommendations

Based on the findings of the study, it is recommended that since KARI is among the organizations that have espoused performance contracts as a performance management tool, it should as an institute be prepared to observe the basic principles of the strategy which includes investment in the training of the personnel concerned on what PCs are all about and how they could be utilized in performance management. Secondly, the SWOT analysis of the personnel concerned should be considered a critical element of the strategy. Thirdly, rewards are necessary for those staff that are able to meet their set

target. Similarly, those unable to meet their set targets because of reasons within their control should equally be penalized. This means that target setting should be carefully done to avoid situations where targets could be too low or too high considering the cost implications involved. The study also recommends that resources be availed to organizations concerned to enable them fully implement the strategy. This includes provision of the necessary work tools and also resources for monitoring so as to ensure compliance to the set objectives. Lastly its recommended that a similar study be carried out in an organization whose operations corresponds to those of KARI with a view to obtaining a wider coverage of participants.

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APPENDIX I: RESEARCH QUESTIONNAIRE

Dear Sir/Madam

You have been identified for participation in the study on the evaluation of the effect of performance contracting on the achievement of organizational goals with specific reference to Kenya Agricultural Research institute (KARI).

The information you give is confidential and will be used for research purpose only. Do not, therefore, write your name or the name of your centre in the questionnaire.

Please respond to each statement as correctly and as honestly as possible. Return the filled questionnaire to the addressed envelope and seal it. Hand over the sealed envelope to the secretary of the Centre Director.

Thank you and be blessed for your cooperation

1. Please indicate your job level

- A) Top management ()
- B) Senior management ()
- C) Middle level management ()
- D) Supervisor ()
- F) Others please specify -----

2. Tick (✓) the area of operations you are involved in KARI

- A) Research ()
- B) Technologist ()
- C) Technical officer/technician ()
- D) Finance ()
- E) Human Resource ()
- F) Supplies ()
- G) Library /information technology ()
- H) Others (please specify)-----

3. Please indicate your gender

a) Female ()

b) Male ()

4. Please indicate your age

a) 20 - 29 ()

b) 30 - 39 ()

c) 40 - 49 ()

d) 50 or above ()

5. What is your marital status?

A) Married ()

B) Single ()

6. Please indicate the number of years you have served since your first appointment as an employee of KARI

a) 0 - 5 ()

b) 6 - 10 ()

c) 11 - 15 ()

d) 16 - 20 ()

e) Above 20 ()

7. State your highest level of education

A) Primary ()

B) Secondary ()

C) Diploma ()

D) Bachelors degree ()

E) Master degree ()

F) PhD ()

8. Of the following modes of training on performance contracting, please indicate the one(s) you have attended, specifying when and the duration of training if any.

Training mode	When attended			
		Years	Months	Days
Workshops within KARI				
Workshop outside KARI				
Seminars				
Job rotation				
Training outside KARI				
Attachment				
Case study				
Coaching by supervisor				
None of the above				

9. Rate the level of training you received against the following modes

Training	Most Effective 5	Very Effective 4	Moderately Effective 3	Less Effective 2	Not Effective 1
Workshops within KARI					
Workshop outside KARI					
Seminars					
Job rotation					
Training outside KARI					
Attachment					
Case study					
Coaching by supervisor					

10. Rank the level of KARI's adherence to the following negotiation procedures in it's signing of performance contracts.

Negotiation procedures Factors	Very high adherence 5	High adherence 4	Medium adherence 3	Low adherence 2	None at all 1
The employee and his supervisor conducts the SWOT status, in which the employee's strengths and weakness are identified, opportunities availed by the organization clarified and likely difficulties in performance agreed upon					
The two, i.e the employee and his supervisor usually have a common understanding on:- -core business/major objective finances to be availed and -the human resources support					
The employee and his supervisor have an understanding of the weights assigned to specific performance indicators and what that entails in regard to the performance targets to be agreed upon					

11. Rank the seriousness with which KARI considers the following factors while implementing the performance contracting strategy

Implementation process factors	Most Seriously 5	Very Seriously 4	Moderately Serious 3	Less Seriously 2	Not Seriously 1
Vision, Mission and Objectives of the organization					
The concept of performance contracting					
Setting of goals and negotiation of targets					
Rewards for achievement and penalties for failure contracts					

12. Rank the frequency of occurrence of the following management support factors in performance contracting strategy by KARI

Occurring Factors	Most Frequently 5	Very Frequently 4	Moderately Frequent 3	Very less Frequently 2	None at all 1
Provision of necessary working tools like stationery, flash disks, lap tops, chemicals, and fertilizers as agreed during the negotiations of PCs					
Provision of incentives for good performance					
Compensation for extra efforts put by staff					
Visible and vocal support of the Performance contracting strategy by the senior management					

13. State how effective Performance Contracting has been in influencing the following organizational structure and culture factors at KARI.

Structure and culture Factors	Most Effectively 5	Very Effectively 4	Moderately Effective 3	Less Effectively 2	Not Effective 1
Reporting structure					
Cross – divisional co-ordination and support					
Team – work					
Discouragement of favoritism at work place					
Staff participation in Decision making					
Transparence in the organization's operations					

14. Rank how well performance contracting has influenced the following factors that measure and evaluate individual staff performance.

Measuring factors	Most Influential 5	Very Influential 4	Moderately Influential 3	Less Influential 2	Not Influential 1
A culture and behavior that is towards improving performance					
Prioritization of organizational activities.					
Mitigating for factors that are out of control of employees.					

15. Rank how performance contracting has contributed in enhancing the following performance information systems of KARI

Performance information systems	Most contributory 5	Very contributory 4	Moderately contributory 3	Less contributory 2	Not contributory 1
Systems that facilitates performance feedback reach those for whom it is intended					
Clarity in the measurement of qualitative targets /dynamic indicators like staff development, safety etc.					

16. Rate in your opinion how satisfactory performance contracts have been in enhancing KARI's efforts to achieve the following set organizational goals.

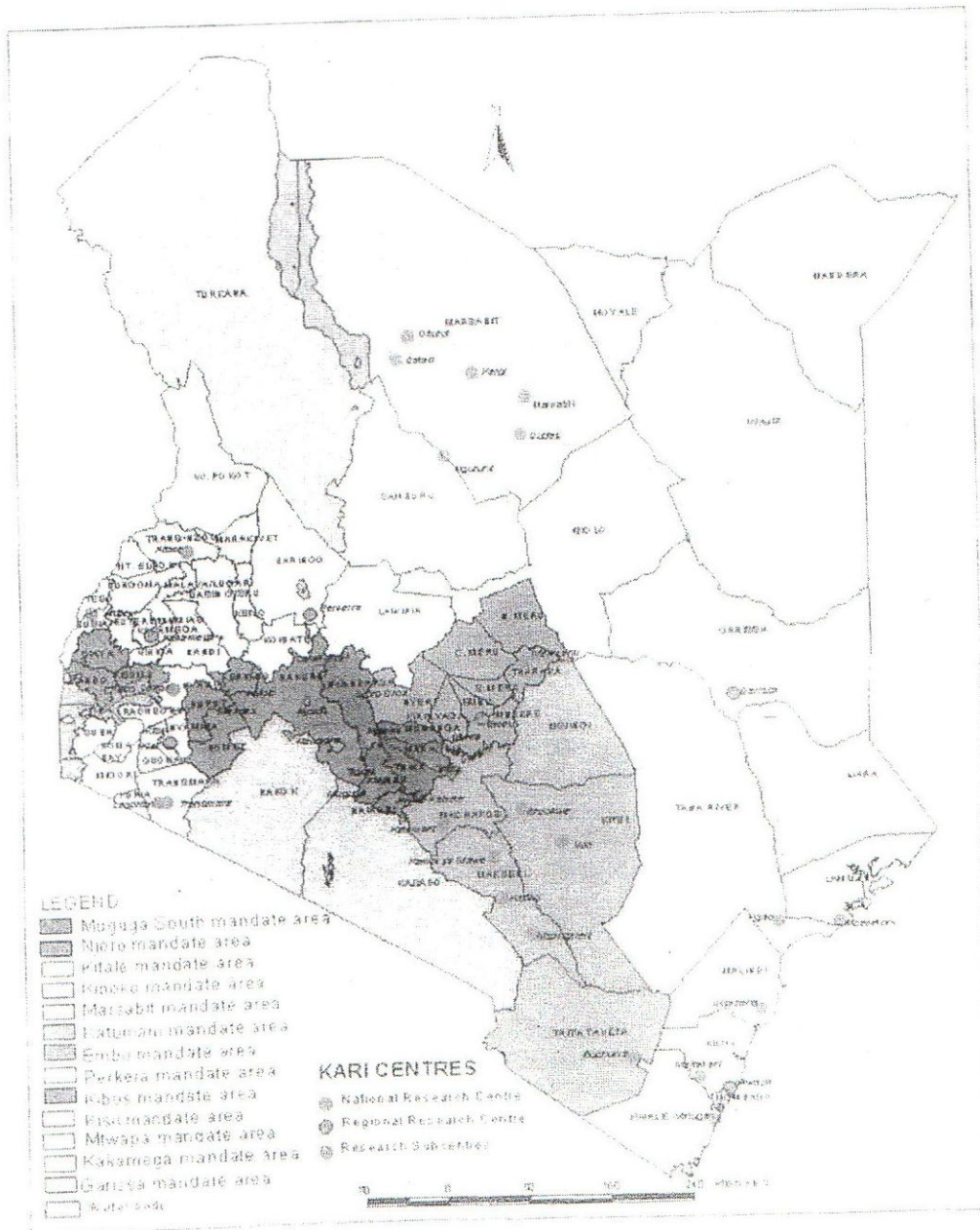
Organizational goals	Most Satisfactory 5	Very Satisfactory 4	Moderately Satisfactory 3	Less Satisfactory 2	Not Satisfactory 1
Fast procurement and audit of goods and services for KARI's operations.					
Enhancing the morale of staff in KARI.					
Increase KARI's release of new varieties, vaccines and diagnostic kits among others.					
Efficiency in KARI's project implementation in terms of timeliness, quality, and cost					
Improved Information Technology (IT) services like inter – net and e – mail.					
Easy access by staff to KARI's code of ethics, schemes of service and code of regulations.					
Well developed criteria for promotion of KARI staff.					
Improved pension services, group life and accident insurance services.					
Elaborate Safety measures including installation of facilities like fire extinguishers.					
Well serviced vehicles and machinery.					
Sensitization of staff on ISO certification.					
Increase in the number of KARI staff's publications in refereed journals.					

17. In your opinion, state the extent the following constraints are experienced in performance contracting at KARI

Constraints	Most Largely Experienced 5	Very Largely Experienced 4	Largely Experienced 3	Rarely Experienced 2	Not Experienced at all 1
No common understanding between employee and supervisor on the core business/major objectives					
Lack of resources especially finance and human resource support.					
Poor communication between program leaders and the employee					
Targets being too easy to attain thereby making the PCs a joke					
Targets being too high thereby making the PCs unrealistic and unattainable					
No thoroughness on the monitoring of the performance contracts					
No rewards, however one excels in his performance contracts					
No penalties for non – performance					
Lack of proper training on performance contracting					
Training on performance contracts being concentrated on senior management and not lower levels					
Supervisors not coaching their staff on performance contracting					
Government controls like the procurement Act and external auditing being a hindrance to attainment of set targets					
Political influence e.g distribution of projects and on staff appointments					

APPENDIX II: DISTRIBUTION OF KARI RESEARCH CENTRES AND THEIR MANDATE DISTRICTS

Network of KARI centres and the mandate districts covered by the different adaptive research centres



Source - KARI (2009): Strategic Plan Implementation Framework 2009-2014.

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