APPLICATION OF PERFORMANCE CONTRACTING AS A STRATEGIC MANAGEMENT TOOL IN KENYA POST OFFICE SAVINGS BANK

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

OCTOBER 2011
DECLARATION

This Management Research Project is my original work and has not been presented for a degree in any other university.

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This Management Research Project has been submitted with my approval as University Supervisor

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DEDICATION

To my dear daughter Lorraine Kaleha Akule, who has been my inspiration driver to achieving my goal. And a special dedication to my parents Mr and Mrs Japhetha Azeegele who have always been there for me emotionally and spiritually thank you.
I thank the almighty God for seeing me through this programmed. His grace and mercies have been sufficient to me. He is My EBENEZER!

My sincere gratitude to all those who contributed immensely in one way or another to the completion of this project. Special gratitude goes to my supervisor, Dr Martin Ogutu for his guidance, extreme patience, understanding, suggestions, improvements and tremendous support throughout this project.

I am greatly indebted to my employer Postbank for giving me resources both time and finances, my parents for continuous encouragement and support. To my sisters and brothers, Myrah, Beatrice, Emily, Edith, Antony and Allan am thankful for their support and understanding when I could not participate in family functions. My daughter Lorraine for her patience, encouragement through the long nights and perseverance thought out the course, friends and colleagues.

My very special thanks to all my respondents. I humbly say thank you to all of you and wish you well.
ABSTRACT

The key priority of the Kenyan government in the implementation of the public sector reforms was the need to improve service delivery and business growth in the state corporations. It also creates transparency in the management and accountability of public resources. The problems that had inhibited the performance of this sector were largely common and identified as excessive controls, multiplicity of roles, frequent political interference, poor management, and outright mismanagement.

The purpose of the study was to determine how Postbank is applying performance contracting in strategic management and to establish the challenges faced by Postbank in applying performance contracting as a strategic management tool. The study adopted a case study design. The research utilized both primary and secondary sources of data which was obtained for information of the study. This was guided by a pre-planned, unstructured question collected through conducting personal interviews. The data collected was analyzed using content analysis. The study found that over the years the bank has been improving in its service delivery and this is attributed to the embracing of performance contracting. The study concludes that there are a number of challenges in the administration and implementation of performance contracting including inadequate resources, frequent transfers of staff midyear, lack of adequate skills and lack of cooperation from staff in the measuring of performance.

The bank should embark on an extensive and continuous training of employees on the core aspects of performance contracting. Training should be frequent, content oriented and adequate enough. Target setting for performance contracting should be discussed and set by all the concerned employees. All stakeholders should be involved in target setting in order to understand the various aspects of the activities involved. This should be discussed and agreed upon by all involved parties. The study recommends that a similar study should be carried out in all the commercial banks so as to establish how they are applying performance contracting in strategic management and the challenges they encounter in the implementation.
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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

In pursuit of the goal of performance improvement within the public sector, new public management emphasized on the adoption of private sector practices in public institutions (Balogun, 2003). New Public Management (NPM) models have therefore been invariably seen through the public service reform initiatives in many developing countries as the solution to reversing falling service delivery. In quest of this same goal, Kenya introduced performance contracting in not only to improve service delivery but also to refocus the mind set of public service away from a culture of inward looking towards a culture of business as focused on customer and results.

The basis for introduction of performance contracting in Kenya underlies the assumption that institution of performance measurements, clarification of corporate objectives, customer orientation and an increased focus towards incremental productivity and cost reduction can lead to improvements in service delivery (GOK 2003). This chapter introduces the background of the study and explains the basis of performance contracting scheme at the Kenya Post Office Savings Bank (Postbank). It defines strategic management, concept of performance contracting, state corporations in Kenya, statement of the problem, the research objectives and gives an overview of the institution under study, the significance, and scope of the study.

1.1.1 Strategic Management

The concept and theories of strategy have their antecedents to military strategy. The economic historian Chandler first articulated the notion of strategy in scholarly circles as 'the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary to carry out these goals'. Quinn (1980) defines strategy as a pattern or plan that integrates an organization's major goals, policies and action sequences into a cohesive whole. Webster
(1994) calls this the building block of strategic management and notes that a secure foundation (strategy) is needed if the process (strategic management) is to function properly.

Strategy provides the link between where the organization is at present and where it would like to be in the future. Mintzberg portrays strategy as a plan, a direction, a guide or course of action into the future and as a pattern, that is, consistent in behavior over time. The management philosopher Drucker sees strategy as an indication of the organization’s positioning for the future, the what rather than the how. It is more important to do the right thing (improving effectiveness) that to do thing right (improving efficiency).

According to Johnson and Scholes (2002), strategy is the direction and scope of the organization over the long term, which achieves advantage for the organization through its configuration of resources within a changing environment and fulfills stakeholders’ expectations. Strategy is a unifying theme that gives coherence and direction to the actions and decisions of an individual or organization.

Pearce II (2009), states that strategic management is a three-tier process involving corporate, business and functional level planners and support personnel. At each progressively lower level, strategic activities are more specific, narrow, short term and action oriented with lower risks but fewer opportunities for dramatic impact. It centers on the belief that a firm’s mission can be best achieved through a systematic and comprehensive assessment of both its internal capabilities and its external environment. Evaluation of the firm’s opportunities leads, in turn, to the choice of long-term objectives and grand strategies and, ultimately, to annual objectives and operating strategies, which must be implemented, monitored and controlled.
1.1.2 The Concept of Performance Contracting

According to Armstrong (2003), performance is achieved when defined as embracing both behavior and outcomes. This, he notes, encompasses a strategic and integrated approach to delivery of sustained success to organizations through improvement of the performance of people who work in them and by developing the capacities of teams and individual employees. As an integration process towards the noted performance background in organizations, the performance contracting scheme was introduced in all state corporations in Kenya in 2005.

Performance contracting has its origins in performance management which is defined as a systematic process for improving organizational performance by developing and maintaining the performance of individuals and teams (Armstrong, 2006). It is a means of getting better results from the organization teams and individuals through understanding and managing of performance within agreed framework of planned goals, standards, and competence requirements. The improvement of performance is a fundamental part of the continuous process of performance. Within the context, poor performance, according to Armstrong (2003), is a result of inadequate leadership, bad management or defective systems of work, whereby failure in such a circumstance is attributed to top leadership of the organization which is unable to establish and develop a well defined expectation for super performance.

The performance contract concept emanates from performance, which according to Armstrong (2006) is the achievement of quantified objectives from which work is achieved. In this context, performance means both measurement of behavior and results, factors that are key to organizational achievement. Barney (2006) observes that organizational performance can also be explored based on the notion that an organization is an association of productive assets (including individuals) who voluntarily come together to obtain economic advantages. He further notes that the owners of productive assets will make those assets available to an organization only if they are satisfied with the income they are receiving – and in particular if the total income they are receiving is at least as large as the income they could expect from any reasonable alternative.
Organizational performance is thus defined through comparison of the value that an organization creates using its productive assets with the value that owners of these assets expect to obtain (Barney, 2006).

Drucker, (2006) states that an organization can be likened to a transmission that converts all activities into one drive, which is business performance. He notes that “effective business management results in effective business performance” which is regarded as a balance of a variety of needs and goals. This involves the consideration of business objectives whose success affects the survival and prosperity of the business towards the realization of effective performance in organizations. It is in this context that the Kenya Government introduced performance contracting scheme in state corporations in the year 2004 as a basis of stimulating business performance in the state owned enterprises (SME’S), which until then were noted as loss making institutions with declining efficiency and inability to sustain themselves in business. Several factors have been cited as impacting on corporate performance of the SME’S and therefore the failure of these organizations to render services as expected. The key factors as cited by Sababu (2007) include: ineffective management, lack of accounting information, lack of timely management action in failure symptoms, refusal by the management to believe in the evident reality issues and failure of management to engage in creative thinking. Other factors that have been similarly advanced include failure to balance activity levels and stock levels with available capital or engaging in heavy commitment projects that went beyond the available resources in the organization.

1.1.3 Performance Contracting and Strategic Management

Performance contracting as part of strategic management is defined as a binding agreement between two or more parties for performing, or refrains from performing some specified act(s) over a specified period of time. It is a strategic management control system which provides information that it intended for managers in performing their jobs and to assist organizations in developing and maintaining viable patterns of behavior.
As part of performance management, performance contracting is a central element of new public management, which is a global movement reflecting liberation management and market-driven management. Liberation management means that public sector managers are relieved from a plethora of cumbersome and unnecessary rules and regulations which usually hinders quick decision making in the organization (Gianakis, 2002). The debate in the public sector has been more complex than just increasing the effectiveness of strategic management systems and narrowing the gap between ambitious strategies and annual planning.

The main concern has been to improve the external accountability and increase internal efficiency and effectiveness at the same time. Performance contracting is a tool for improving public budgeting, promoting a better reporting system and modernizing public management while enhancing efficiency in resource use and effectiveness in service delivery (Greiling, 2006).

According to GOK (2007), performance contracting is a strategic management tool for measuring negotiated performance targets. It is a freely negotiated performance agreement between government, acting as the owner of public agency on one hand, and the management of the agency on the other hand. Campbell-Hunt Colin (1999) states that strategic management focus on priority setting against criteria of effectiveness and outcomes underpinned by sound strategy. In a devolved environment, it strengthens the coherence of government’s actions and provides a ‘whole of government’ perspective both in setting priorities and identifying performance targets.

The link between performance contracting and strategic management is the two are processes that link the corporate business level to the functional level of the organization. The corporate objectives are cascaded down with each level defining the targets and setting the key performance indicators. According to Pearce II, strategic management is concerned with tracking a strategy as it is being implemented, detecting problems or changes in its underlying premises, and making necessary adjustments.
1.1.4 State Corporations in Kenya

The state corporations as public sector institutions created under the state corporations Act (Cap 446 laws of Kenya) with various mandates such as accelerating development, increasing the public participation in the economy and overall promotion of indigenous entrepreneurship. They are operational business entities, classified into eight broad functional categories based on mandate and core functions listed as: Financial corporations, Commercial/manufacturing corporations, Regulatory Corporations, Public Universities, Training and Research Corporations, Service Corporations, Regional Development Authorities and Tertiary Education/Training Corporations (Government Guidelines for State Corporations, 2004). The organizations are categorized as per the functional responsibilities and place under the supervision of different government ministries which provide guidelines, oversee the general supervision and direction of the business operations.

The government has adopted performance contracting in the public service in order to ensure that: there is reduction or altogether elimination of reliance on exchequer funding for government agencies which are expected to generate revenue or make profit; an objective basis for divesting loss making government agencies, it will also compel the agencies to give a return to the shareholders by paying dividends or surplus; the process will ensure that government ministries/departments improve service delivery to the public (GOK, 2003).

1.1.5 Kenya Post Office Savings Bank

The Kenya Post Office Savings Bank (POSTBANK) was established by an Act of Parliament (Cap 493) in 1978, with a mandate to mobilize savings for national development. This was following the collapse of the East African Community in 1977, and the need by the three respective member countries to set up internal institutions to coordinate services previously handled under the East African Community corporate body. It is against this arrangement, that Postbank was established and mandated to serve
as a savings bank in Kenya, with the responsibility of mobilizing savings and encouraging thrift among Kenyans. The current mission of the bank is: "To provide accessible and sustainable banking and other related financial services, through innovative delivery systems for wealth creation to the benefit of customers and other stakeholders" (Postbank Corporate Development Plan, 2007).

In this savings mobilization activity, the bank has a countrywide spread of 97 service outlets (branches) and a staff capacity of 800 employees. Functionally the institution reports to the Ministry of Finance, which oversees its operations and has the responsibility to handle bank’s performance contract scheme as per the government specifications.

Postbank as a public service institution was impacted by the introduction of performance contracting scheme in the state corporations. The bank was among the initial 16 state corporations that participated in the performance contract scheme pilot test program in the year 2004, and was later incorporated fully into the scheme from January 2005. The bank signed the first contract with the government in December 2004 and this provided the performance benchmarks for the year 2005. The bank has since then operated under the performance contract scheme and has been evaluated in its performance up to date. This validates the need for an appraisal of the effectiveness of the performance contracting scheme as a strategic management tool for improved service delivery in the state corporations.

1.2 Research Problem

Prior to the year 2005, Postbank operated within the specifications of its core mandate of savings mobilization as stated in the Act of Parliament (Cap.493B) establishing its formation as a corporate institution until the year 2010 when the government approved the conversion of Postbank to a limited liability company. No defined criteria on review of the organizational business performance was stated in the act of incorporation and the
organization enjoyed a government guarantee to cushion it against any operational losses it may incur in the course of business.

The key priority of the Kenyan government in the implementation of the public sector reforms was the need to improve service delivery and business growth in the state corporations. It also creates transparency in the management and accountability of public resources. The problems that had inhibited the performance of this sector were largely common and identified as excessive controls, multiplicity of roles, frequent political interference, poor management, and outright mismanagement (RBM Guide, 2005). Mathis (2006) observes that the performance therefore is regarded as an action or achievement, which is considered on how successful an action is and productivity which is seen as a measure of quantity and quality of work done as compared to the cost of resources used. It is against this consideration that performance contracting was introduced in public enterprises as a means to improve organizational efficiency, enhance quality service and growth.

Studies have been carried out in different organization and government ministries on performance contracting. These studies have laid emphasis on different conceptual as well as contextual framework. For instance, (Gitonga, 2010; Osoro, 2010) all studied organizations in the public sector on the perception of performance contracting scheme and service delivery. While (Kiprono, 2010; Maina, 2010) studied the impact of performance contacting in state corporations in Kenya with similar challenges faced in the implementation. Lenetoijoni, 2010 studied on the strategy of implementing performance contracting in state corporation.

Postbank as an organization has been signing performance contract with its parent government ministry over the years and it has used it as a strategic tool to align itself in the very competitive market. This study therefore seeks to determine; How is Postbank applying performance contracting as a strategic management tool and what challenges has faced as it aligns itself strategically in the market?
1.3 Research Objectives

i. To determine how Postbank is applying performance contracting in strategic management.

ii. To establish the challenges faced by Postbank in applying performance contracting as a strategic management tool.

1.4 Value of the Study

The research project will assist in the contribution to the theory development on the application of performance management in organizations. It will also have significance to all the stakeholders, who comprise the government as the principal agent, Kenya Post Office Savings Bank as the agency, the employees as the beneficiaries of the organization and other state corporations as peers and the public as consumers of the services.

To the Government of Kenya, this study is of key importance as it will provide a review on the achievements or failures of the scheme in the Bank. Areas of noted challenges, weakness and strength will be highlighted. The employees of the bank as key stakeholders will be able to know the effectiveness of the scheme and in supporting the continued retention of their services in the organization. To the suppliers and customer, the research study will provide a basis of confidence rating in terms of business continuity with the organization.

The research study is similarly of significance to strategic management knowledge for use by academicians, scholars and researchers as a point of reference. This study will provide more opportunities for further research in this management field of study, which within the Kenyan context is still fairly new.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The chapter presents a review of the related literature on performance contracting and the strategic dimension by various scholars, researcher, analysts and authors. The research has drawn material from several sources which are closely related to the theme and the objectives of the study.

2.2 The Concept of Performance Contracting

Performance contracting has its origins in performance management which according to Armstrong (2006) is defined as a systematic process for improving organizational performance by developing and maintaining the performance of individuals and teams. It is a means of getting better results from the organization, teams, and individuals through understanding and managing of performance within an agreed framework of planned goals, standards and competence requirements. Armstrong notes that the overall aim of performance management is to establish a right performance culture in which individuals and teams take responsibility for continuous improvement of business processes, own skills and contributions within a framework provided by effective leadership.

2.3 Performance Contracting Globally

Performance Contract System originated in France in the late 1960s and has been used in about 30 developing countries in the last fifteen years. In Asia, the performance contract concept has been used in Bangladesh, China, India, Korea, Pakistan and Sri Lanka. In African, performance contracts have been used in selected enterprises in Benin, Burundi, Cameroon, Cape Verde, Congo, Cote d'Ivoire, Gabon, the Gambia, Ghana, Guinea, Madagascar, Mali, Mauritania, Morocco, Niger, Senegal, Togo, Tunisia, Zaire and now Kenya. In Latin America, they have been used at different times in Argentina, Brazil,
Bolivia, Chile, Colombia, Mexico, Uruguay and Venezuela. Others include Malaysia, United Kingdom, USA, Canada, Denmark and Finland. (Loc Associate Report 2010)

Performance contract use has been acclaimed as an effective and promising means of improving the performance of public enterprises as well as government departments all over the world. Its success in such diverse countries as France, Pakistan, South Korea, Malaysia and India has sparked a great deal of interest in this policy around the world. The latest country to adopt the system is Rwanda. A large number of governments and international organizations are currently implementing policies using this method to improve the performance of public enterprises in their countries. DPM (2004).

International experience with privatization suggests that the process of implementing a well-thought-out privatization program is a lengthy one. Therefore, in the interim, it is imperative that immediate steps be taken to increase the efficiency of the public enterprises and reduce further drain on the country’s treasury resulting from their losses.

In Canada, the government’s approach to performance contracting and management were rooted in early 1990’s expenditure management systems designed to cut costs during a period of budget deficits (Kernaghan & Siegel, 1999) and in France they were first introduced in the Directorate General for Taxed (DGI) specifically designed to respond to two main concerns (Grapinet, 1999). First, as tools meant to ensure consistency in a decentralized context and second, as tools to enhance pressure on the entire services network in order to improve performance. Earlier management tools for example the Carrot-and Stick policies and behavior which were common in the 19th Century Industrial Age had become increasingly irrelevant to modern management practices and therefore, this called for more flexible and adaptability in strategic planning, forcing managers responsible for implementing strategies be involved in all stages of strategy formulation (Barclays Africa, 1997).
2.4 Performance Contracting Practice in Kenya

The change of regime in 2002 and the subsequent launch of the Economic Recovery Strategy for Wealth and Employment Creation (ERS) in 2004, marked a watershed for ushering in the second generation reforms. A new government, elected on a platform of change, pledged to pursue a national development strategy that sought to instill rapid and sustained economic growth and reduce the high incidence of poverty through wealth and employment creation. This strategy was to be implemented by: creating a competitive market conditions for private sector led growth; directing resources towards wealth and employment creation; and supporting both effective and efficient public sector performance and service delivery (GOK ERS 2004).

In Kenya reforms have attempted to improve the context for private sector development. They are aimed at changing the perception about government from being viewed as an obstacle to development which must be removed, to seeing it as a potential solution which must be appropriately targeted. Numerous measures undertaken before did not provide a framework for guiding behavior towards attainment of results or ensured accountability in the use of public resources and efficiency in service delivery, until 2003 when the government outlined its commitment to improve performance, corporate governance and management in the public service through the introduction of Performance Contracts (PC) in its policy framework paper “Economic Recovery Strategy for Wealth and Employment Creation (2003-2007) (IPMR Vol 10 2009).

The Kenya Government Policy Paper on Performance Contracting (2005) states that performance contracts belong to a branch of management science referred to as management control system and is noted as a freely negotiated performance agreement between government, acting as the owner of the corporation and the corporation. The concept emanates from performance, which according to Armstrong (2006) is the achievement of quantified objectives for which work is achieved. Performance contracting involves two parties where in an agreement: the parties clearly specify their mutual performance obligations, intentions, and responsibilities within the terms or contract, which is signed on a periodic basis. As indicated in the Government Contract
Policy Paper (2005), performance contracts seek to address economic, social or other tasks that an agency is required to discharge for economic performance or for other desired results. The policy paper goes further to state that the contract agreement organizes and defines tasks so that management can perform them systematically, purposefully and with reasonable probability of accomplishment and satisfaction of the principal agent.

In the operational context, performance contracts mainly comprise two major components: the determination of mutually agreed performance targets and time bound review and, and evaluation of the periodic performance. As per the laid down implementation framework and practice in the state corporations, a two level contract is signed; first between the Government and the Board of Directors, and; secondly between the Board of Directors and the Chief Executive Officer in the organization (ERS, 2003-2007). The Chief Executive Officer (CEO) is expected thereafter to facilitate an intra-organization roll out of the contract which is cascaded immediately to the senior management, middle management, lower management, and all staff as per the organization's functional structure. The annual corporate development plan document in the organization is used as a guideline for the respective departmental targets. Through this process, the performance contract system is extended and spread across operational units in the entire organization, with departments championing their respective goals and targets as per the linkages established in the approved corporate plan for the prevailing period.

2.5 Performance Contracting Management Processes

According to UNDP (March 2010), Corporate strategic plan are developed upon agreed projected organizational performance in line with the corporate strategic objectives. The process of identifying performance targets is carried out after the budget process has been completed and institutions informed about their resource allocation. This ensures that targets are realistic and achievable within the available resources. The targets emanate
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from the institutions and are freely negotiated and not imposed arbitrarily by the institution.

Sean (2009) points out that performance contracting should be much more than a process for documenting and delivering feedback, coaching and ratings. He believes that when expanded beyond these basics, performance contract becomes a powerful management tool for helping employees develop and achieve their full potential. Processes should be fairly standard and be able to address agency objectives. The amount of detail provided depends on the level of guidance required to support the needs of business units. Performance management process typically involves four main stages namely work plan management, skills development, performance monitoring and evaluation and rewarding of outstanding performance. In terms of work plan management, it is based upon business plans and other corporate documents, key deliverables and areas of responsibility to which staff members will contribute are determined. A staff member and manager agree on the work and responsibilities of the staff member's position. The plan will also set out how the staff members' performance will be measure or evaluated against corporate strategic objectives (Akaranga, 2008).

In terms of skill development, the staff member and the manager identify and agree the learning, development and information needs of the staff member to meet their performance and the business needs of the business unit. This would include selecting options and the development of an action plan to access the opportunities identified (Armstrong, 2006). Similarly, under performance monitoring, the staff member provides regular feedback to the manager on their progress towards the achievement of the agreed performance objectives. The manager provides regular formal and informal feedback on their assessment of the staff member's achievements.

Within the context of performance evaluation, Armstrong and Baron (2004), argue that the manager and the staff member should regularly (Periodically) evaluate the staff member's performance and the achievement of the objectives in the work plan as well as the agreed training and development plan. This phase should then feed into the next cycle of the performance management process. Lastly, with regard to rewarding
outstanding performance, there is need to reward outstanding work which is recognized from the evaluation reports. The top performers need to be rewarded in various ways ranging from recognition to award of medals and other material endowments (Armstrong, 2006).

2.6 Performance Contracting as a Quality Service Improvement Strategy

The experience and philosophy of performance contracting is core to the understanding of the scheme as a strategy for improved quality in service delivery. It lays the foundation for its application and basis of use by the different institutions world over. The history of performance contracting is long and according to SCSTM (2005), it may be followed up against a systematic assessment of its application in various parts of the world. The first country in Africa to adopt performance contract scheme was Senegal, where the performance contract idea was widely supported by the public enterprise managers who regarded it as a tool meant to better their performance through the removal of excessive government controls. The scheme accorded the officers the opportunity of increased autonomy and decreased outside interference in the management of their corporate activities. To the parent Ministry and the Ministry of Finance respectively, the scheme was seen as a reduction of their operational control and therefore a basis for internal responsibility and accountability of the managers within the respective organizations (SCSTM, 2005).

As per Economic Recovery Strategy for Wealth and Employment Creation (2003-2007) Policy paper, the Kenya government undertook to introduce performance contracts in state corporations and statutory boards as per the initiative to improve the performance and service delivery in the noted government institutions. This was an effort by the government to guide state corporations in performance management, which as defined by Dessler (2005), is a process that consolidates goal setting, performance appraisal and development into a single common system with the aim of ensuring that institutional
performance is in tandem with the company’s overall strategic aims. Dessler further notes that the performance management scheme should be geared towards the realization of improvement in the organization, which is then required to continuously set and relentlessly meet ever-higher quality cost, delivery and availability of goals.

The philosophy was adopted by all state corporations which were expected to develop annual corporate plan strategies which would serve to guide on the agreed targets and act as a yardstick to assess achievement of goals upon completion of the defined performance period. The annual corporate plans also formed a basis in which performance contracts are negotiated with the principal at the commencement of the new contract period. Within the scheme expectations, the targets are evaluated and agreed upon between the parent ministry and the state corporation based on the strategic plan document. This provided a basis to evaluate and check on successful implementation of the corporate strategic plan goals in the state corporation and how the same influenced the overall improvement of service delivery and performance of the institution during the contract period.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter highlights the methodology that was adopted in order to meet the objectives of this study. This included; research design, data collection methods and data analysis procedures.

3.2 Research Design

The study adopted a case study design. According to Kothari (2003) a case study is used for investigating a study unit, say an individual, institution or any entity in details, in context and holistically.

The design was appropriate for this study because it involved an in-depth investigation of performance contacting as a strategic management tool in Kenya Post Office Savings Bank.

3.3 Data Collection

The research utilized both primary and secondary sources of data which was obtained for information of the study. This was guided by a pre-planned, unstructured question collected through conducting personal interviews (see Appendix II). The respondents were drawn from the top management level Postbank are; the Director Operations, and Heads of Departments in (Finance, Marketing, Retail Banking, Human Resource, ICT, Legal, Transfer Services, Administration, Internal Audit) a total of ten respondents. Secondary data was collected from the corporate strategic plan documents and annual government journals on performance contacting. The data was used to supplement the information gathered from the in-depth interviews.
3.4 Data Analysis

The data collected was analyzed using content analysis. Content analysis is a method for summarizing any form of content by counting various aspects of the content. This enables a more objective evaluation than comparing content based on the impressions of listener (List, 2005). It does not restrict the respondent on answers and has the potential of generating information with much detail.
CHAPTER FOUR: FINDINGS AND DISCUSSIONS

4.1 Introduction
This research has two objectives: to determine how Postbank is applying performance contracting in strategic management and establish the challenges faced by Postbank in applying performance contracting as a strategic management tool. Data was analyzed using content analysis based on the meaning and implications emanating from interviewees' information and documented data on strategic planning.

The chapter is based on the interviews conducted with five heads of departments. All interviewees have worked in the bank for over five years. Analysis and results are presented in order of objectives.

4.2 Performance Contracting
The study sought to establish the interviewees' understanding of what performance contracting is. From the interviewees, all the interviewees understand what performance contracting is and it has been in operation for the last six years now and described it as the process of creating shared commitment and agreement between the team leader and the members of the team to achieve specific goals and objectives of an organization.

The interviewees further described it as a process of creating a shared understanding and commitment about the goals and objectives that the team members want to achieve, developing a dynamic process and methods of achieving the agreed results and the ultimate measurement of actual performance against the agreed performance targets. This is in line with Armstrong, (2006) who defines performance contracting as a process of improving organizational performance by developing and maintaining the performance of individuals and teams.

The interviewees intimated that performance contracting enhances the way the bank manages its business; aims at improving the way the bank achieves its results; establishes well-defined standards for measuring team and individual performance and provides a mechanism for continuously monitoring the implementation and achievement of performance plans and targets.
4.3 Strategic Planning

On how the strategic planning at the bank is aligned with the performance contracting, the interviewees confided that the strategic plan is aligned through the various action plans in that it indicates an organization's strategic orientation, its vision, mission and core value, strategic thrust, goals and objectives to be attained in a specific time frame. The interviewees were also of the opinion that the bank sets strategic planning objective based on the Postbank's strategic plan pillars which are financial perspective; customer service perspective; marketing and business growth perspective; internal processes and operations perspective; people management perspective. These are the five key performance areas the bank has adopted. The interviewees argued that the strategic planning is positively embraced in the bank and the main participants are the board and the corporate level of the bank.

The interviewees reiterated that performance contracting as a strategic management tool has improved the organization's competitive culture as all employees in the different cadres are motivated to meet their set performance targets which are reviewed periodically. They say that all departments are signing service level agreements which they work towards achieving their time line on service delivery. They further say that the help desk is also helping staff to respond to the queries that are sent to it to avoid escalation to the next level. They added that the bank train its staff on performance contracting through seminars and workshops, there is need to frequently send them for a refresher course because of the frequent transfers and change of duties among the staff.

According to the interviewees, the tools of performance contracting that the bank has used in implementing this system include the balanced score card and the rapid results initiative system (RRI). They also reiterated that the bank as a state corporation is obligated to work in line with the government objective and thus, its objectives are in line with the sectoral goals identified under vision 2030. One of the pillars of vision 2030 is the economical pillar which the bank falls under the financial service sector. The interviews said that when drawing up the performance contracting, all departments are required to bear in mind the need of encouraging high-levels of savings and financing
Kenya's investments needs. The key aspect is mobilizing savings and educating the public on the need of savings and bring services closer to the people. The interviewees state that this, the bank has done and partnered with other financial service providers to open agents all over Kenya.

On whether the application of performance contracting has leveraged the bank to compete favorably with other financial institutions in the market, the interviewees intimated that the application of performance contracting has enabled the bank to be more focused in its goal achievement and this has improved the bank's profitability and competitiveness mainly through improved customer service. They say that when setting the key performance areas, each department has to come up with innovations that will be undertaken in the period under review. These innovations have to be structured in a way that they grow business and bring in revenue to the bank. They say this has strategically positioned the bank and given it leverage against other financial institutions.

Given that performance contracting involves preparation and negotiation with organization staff, the interviewees confided that the bank has been adequately involved in these preliminary stages citing that the HODs sign performance contracts with the MD and then cascade it to the team members and therefore they are involved in the preparation and negotiation of individual targets. The interviewees also intimated that performance contracting as a strategic management tool has helped them meet their individual annual targets adding that it has also helped the bank achieve its overall goals and also compete favorably among financial state corporations.

4.4 Target Setting

Awareness and understanding of organizational targets by all employees of the organization places the organization in a better position to achieve them. The interviewees considered target setting is very fundamental in the actualization and successfully applying performance contracting in the bank. This requirement is important because the signing of performance contract is cascade down the organization hierarchy
and on the perceived notion that every employee is aware of his/her individual contribution and responsibilities. They stated that the targets are set and they should be quantifiable and measurable so that when they are evaluated, they are able to give tangible evidence which helps in measuring the achievement and awarding the marks appropriately both during mid and end year reviews.

It sought to determine the level of understanding on target setting specifically the heads of departments and team members in the respective departments. This was to establish and clarify the banks goals, SMART goals, how heads of departments are involved in setting of performance goals and evaluation criteria. From the interviews, it was clear that the HODs are involved in setting targets and they are accountable and responsible of the performance of their respective departments. This calls for them to formulated specific, measurable, achievable realistic and time bound goals. The problem maybe in communication of the targets to employees. These findings are in line with views of Mintzberg (1994) which stated that any strategic objective that are unclear, ambiguous give insufficient guidance to the employees and are too vague for concrete interpretations.

It was further revealed that in the application of performance contracting, the employees are accountable to their HODs. Consequently, their involvement in setting individual performance contracting is very critical. The findings concluded that the employees set targets but they do not effectively adhere to them or they are given other duties mid way which makes the evaluation difficult and accumulating the achievements becomes a problem. They further stated that at times targets are set which are unachievable due to the market conditions or the supporting departments do not give the necessary support needed with makes it very difficult the achieve. They intimated that most of the activities that require financial support are always not attained or if they do the budget is always reviewed downwards and the activities are not undertaken to satisfactory which makes the target not achievable.
4.5 Tools for Assessing Performance Contracts

The interviewees also indicated that the tools applied in assessing performance contracting include balanced score card and rapid result initiative (RRI). From the interviewees, the bank has adopted the balanced score card as a tool used on applying performance contracting. According to interviewees, the BSC is a method of providing an organization with a comprehensive framework that transfers the organizations' strategic objectives into a coherent set of performance measures. They further say that it is a set of corporate measures which the management can use to tract down the implementation and achievement of corporate strategic goals and objectives. They said that the scorecard essentially, hinges on the organization's strategic objectives adding that the five pillars that the BSC is based on the key performance areas: financial, marketing and business growth, people management and internal process and operation perspectives have worked out well for the bank in carefully illustrating the key performance indicators for every area. The interviewees say this makes it very easy for the different departments to easily pick out what relates to them and main the common areas that cut across the departments.

The interviewees also stated that the government has also introduced the Rapid Results Initiative (RRI) tool which breaks down long-term results into 100 days results based on: what is a result goal and not a process, what is in the strategic plan, what is critical achievement to the stakeholders, what can be achieved using the available resources and what can be achieved in 100 days. The interviews indicated that this has helped to fast track annual targets in the bank and created a sense of urgency and overcome barriers that would otherwise been challenges to the teams. The RRI has a lot of goodwill from the leadership of the bank and that is why so far it has been effective for the four waves that it has been there.

Further the interviewees said the RRI tool is result based designed to help teams avoid implementation challenges and jump-start major organizational change effort. The evaluation of the RRI is at the fiftieth day and here the teams outline what they have managed to achieve and challenges faced. Targets are reviewed, challenges are brought to
fore and the way forward is charted so that the targets are achieved. The interviewees intimated that this has tremendously fast tracked the strategic corporate objectives which would have been otherwise taken long to achieve if not taken up in the rapid result initiative wave. From the study it is clear that this has very much worked for the bank and the management has fully embraced it. They further said that the bank as a state corporation has been in close link with the RRI wing of the Prime Minister’s Office who have guided the bank through training of the process and continuously guiding the bank on how to apply it in achieving the targets.

The interviewees said that performance contracting has been applied and incorporated in the service charter in relation to service delivery to both internal and external customers. The interviewees say that the service charter has acted as a tool in assessing the PC since it works towards attaining the set standards of quality service delivery. They say the response time to internal and external customers has improved because staff are always careful to achieve the terms signed in the charter.

The main objective of performance contracting as a strategic management tool is to improve in service delivery and as a bank the researcher wanted to determine where this has had an impact on its quality of service. The interviewees confirmed that over the years the bank has been improving in its service delivery and this is attributed to the embracing of performance contracting. The bank is more focused on the core businesses and trying to create a niche on the market. The interviewees further said that the bank is ISO certified and that is one reason the service delivery is key in service delivery. They say the ISO auditors visit the bank regularly to determine whether the bank is complying with the standards expected and that is why the HODs are always on top of things when it comes to service delivery. They say they do not want their department to be the one to cause the bank to be disqualified. The interviewees also intimated that the monitoring and evaluation committee is not very effective in tracking the progress of applying the performance contracting in the bank.
4.6 Challenges of Performance Contracting as a Strategic Management Tool

The second objective of the study was to establish the challenges the bank faces in applying performance contracting as a strategic management tool. The introduction of performance contracting has tremendously changed the way employees do their work. As a result, the bank, just as other institutions is faced with various challenges as it strives to meet its set targets.

The interviewees pointed out a number of challenges in its administration including inadequate resources necessary to undertake the various activities effectively in that there is no match between various activities to be undertaken in the performance contracting and the amount allocated for those activities in the bank coupled with reallocation of funds to other activities that were not planned which affected achieving the set targets.

They also noted that there were frequent transfers of staff midyear which affects the successful achievement of the process since it always needs staff abandon the signed contracts in the middle and sign others in the new stations they have been posted. The interviewees also stated that the application of performance contracting requires adequate staff placed in the right positions who are competent enough for the achievement of the key performance areas and key performance indicators. The interviewees went ahead to indicate that there was lack of adequate skills in many departments and also staff levels are low. This is because the bank laid off staff and there has also been resignation of champions in the process. They also pointed out that staff are not recruited on time to replace the once leaving which affects performance of the bank.

It was also noted that some staff are not cooperative in the measuring of performance this is because there are those who feel this will expose them negatively in terms of poor performance by the outcomes. The interviewees further confided that the separation of the negotiation committee and the evaluation committee causes challenges as most of the time their perception of different issues differ which may lead to conflict during the appraisal affecting the employee morale.
In applying of performance contracting in the bank, the interviewees reiterated that power and politics pose a challenge as most people want to maintain their status quo. Those in power are in strategic positions to influence decisions that impact positively to the activities earmarked in the performance contracts. This was further stated that HODs will always identify areas that need to be pursued and use their positions to influence however, this sometimes does not work since the final decision makers are the board members. On the challenges faced on leadership in achieving the key performance areas, the interviewees said that leadership is very important for any process to be achieved and the good will shown by the management. Leadership has been shown but the challenge here is communication on reward which has lead staff not to give performance contracting the seriousness it deserves. However, the bank does not have a scheme/policy to guide on reward for meeting performance contracting targets. The interviewees also said that the nature of organizational culture in the bank is one that does not give cultivate competitiveness in achieving the goals and making everybody have the need to work with extra zeal to achieve its targets. It was confided that this may be because the bank is a state corporation and it does to tagged performance on demotion or promotion which are motivating factors in organizations.

The interviewees intimated that the areas in performance contracting that should be improved include clear setting of targets that are well defined and measureable, reward on performance which is very critical should be effected for the process to have meaning among staff and that the process should be more participatory so that staff are aware of the consequences in either way. For consistency and to help put the evaluation into perspective, it may be advisable for the same team that has done the negotiation to also undertake the evaluation. The interviewees unanimously agreed that performance contracting is a good strategic management tool.
CHAPTER FIVE: SUMMARY, RECOMMENDATIONS AND CONCLUSION

5.1 Introduction

This chapter summarizes the findings of the study, recommendations and conclusions in relation to the objectives of the study. It also includes the limitations of the study and suggestions for further research.

5.2 Summary of Findings

Performance contracting has triggered a paradigm shift in the management and strategically positioning of institutions in the competitive environment. This has necessitated organizational and cultural change to position the bank strategically to obtain a competitive advantage and gain customer confidence. The success of an institution depends on the tools of strategic management used by the management to leverage the institution among competitors. This also depends on the employees perception, their individual and synergetic efforts and behavior. Consequently performance contracting has become a crucial tool in executing organization strategy. The study sought to determine how Postbank as an institution applies performance contracting in strategic management and establish the challenges faced by the bank in applying performance contracting as a strategic management tool.

Within the context of performance evaluation, Armstrong and Baron (2004), argue that the manager and the staff member should regularly (periodically) evaluate the staff member's performance and the achievement of the objectives in the work plan as well as the agreed training and development plan. In line with this, it was clear from the study that target setting is very fundamental in the actualization and successfully applying performance contracting. The study deduced that performance contracting enhance the way the bank manages its business; aims at improving the way the bank achieves its results; establishes well defined standards for measuring team and individual
performance and provides a mechanism for continuously monitoring the implementation and achievement of performance plans and targets.

According to UNDP (March 2010), Corporate strategic plan are developed to project organizational performance in line with the corporate strategic objectives. In line with this, the study found that the strategic plan is aligned through various action plans in that it indicates an organization's strategic orientation, its vision, mission and core value, strategic thrust, goals and objectives to be attained in a specific timeframe.

The bank sets strategic planning objective based on the Postbank’s strategic plan pillars which are financial perspective; customer service perspective; marketing and business growth perspective; internal processes and operations perspective; people management perspective.

The study also established that performance contracting has improved the organization's competitive culture as all employees in the different cadres are motivated to meet their set performance targets which are reviewed periodically and that the bank trains its staff on performance contracting through seminars and workshops. Further the tools of performance contracting that the bank has used in implementing this system include the balanced score card and the RRI system. The bank as a state corporation is obligated to work in line with the government objective and thus, its objectives are in line with the sectoral goals identified under vision 2030. This is inline with the GOK Kenya Vision 2030 (NESC).

It was clear that the application of performance contracting has enabled the bank to be more focused in its goal achievement and this has improved the bank's profitability and competitiveness mainly through improved customer service. The study found that performance contracting as a strategic management tool has helped the employees meet their individual annual targets adding that it has also helped the bank achieve its overall goals and also compete favorably among financial state corporations.

The HODs are very clear on their departmental targets and what is expected of them. The problem is in communication and training as the targets are cascaded down to the other
sectional heads. Training of staff and refresher courses is very important, this is confirmed in the study where the bank has been participating the performance contracting in the last five years but staff have not clearly understood the setting of targets and evaluating themselves. This is in agreement with Kobia & Mohammed (2006) pointed out that knowledge on performance contracting development of work plans and monitoring capacities among staff is central to the success of performance contracting.

The study also revealed that the tools applied in assessing performance contracting include RRI, ISO audit and balanced score card this are strategic management tools the institutions are using to achieve their CDP. It was clear that performance contracting is incorporated in the service charter in relation to service delivery to both internal and external customers.

On reward and incentives, the study found that this has not been managed well over the years the bank has been signing performance contracts and this confirms why at the sectional level the process is not given the seriousness it deserves. When no reward or penalties for non performers are not there, this demoralizes high performers but also cast aspersion on the rationale and motivation for the whole exercise. This is consistent with Armstrong (2006) that the top performers need to be rewarded in various ways ranging from recognition to award of medals and other material endowments.

Performance contracting calls for translation of strategic management thinking into action throughout the organization. This is working a plan as the focus shifts from formulation into application of performance contracting. This calls for figuring out all the specific techniques, actions, behavior that are required for a smooth contract, supportive operation, which then follow through to get things done and desired results delivered.

The basis for introduction of performance contracting in Kenya underlies the assumption that institution of performance measurements, clarification of corporate objectives, customer orientation and an increased focus towards incremental productivity and cost reduction can lead to improvements in service delivery (GOK 2003). It was revealed that over the years the bank has been improving in its service delivery and this is attributed to
the embracing of performance contracting. The bank is more focused on the core businesses and trying to create a niche on the market. The study also found that the monitoring and evaluation committee is not very effective in tracking the progress of implementing the performance contracting in the bank.

5.3 Conclusions

The study concludes that over the years the bank has been improving in its service delivery and this is attributed to the embracing of performance contracting. The overall analysis has indicated that performance contracting as a strategic management tool has made the bank more focused on results rather than processes. The bank has become more oriented towards customer as the most important person, better accountability on the resources available and improvement in management style.

The main success of application of performance contracting is the strategic planning, proper training of all stakeholders, capacity building, monitoring and evaluation programme. Availing the required resources on time, finances and proper leadership enhances the motivating effect of performance contracting. This is in agreement with Armstrong (2003) that poor performance is a result of inadequate leadership, bad management or defective systems of work, whereby failure in such a circumstance is attributed to top leadership of the organization which is unable to establish and develop a well defined expectation for super performance.

The study also concludes that there are a number of challenges in applying performance contracting include poor target setting by the HODs, there is always inadequate resources both financial and human resources in the bank, frequent transfers of staff midyear and also change of duties/addition of duties which has problem to the a great challenge. Lack of adequate skills and lack of cooperation from staff in the measuring of performance.
5.4 Recommendations for Policy and Practice

The following recommendations are worth making in order to enhance effective operationalization of performance contracting in the bank. The bank should embark on an extensive and continuous training of employees on the core aspects of performance contracting. Training should be frequent, content oriented and adequate enough. Knowledge is power and therefore, the management needs to give employees valuable training on performance contracting. Lack of training impacts negatively on performance hence training is necessary to achieve their targets. The study therefore recommends that the bank management should continuously keep staff aware of the benefits of performance contracting and strategic planning.

Stability of resources enhances the motivating effect to the contract. It is recommended that when activities that require financial resources are budgeted for, it motivates staff when they are able to carry out these activities and achieve their targets. When resources are not available or availed late, the staff involved get frustrated and discouraged and do not want to participate in performance contracting.

All stakeholders should be involved in target setting in order to understand the various aspects of the activities involved. This should be discussed and agreed upon by all involved parties. With regard to reward and penalty system, this should be defined by a policy guide. Targets that are agreeable to all create ownership and help in team motivation leading to more success. This will bring clear and transparent style that stipulates rewards for achievement and penalty for non-performers. The study also recommends that for effective and lasting impact on performance contracting the set targets should be attainable.

Although monitoring and evaluation committee has been set to track progress on the performance contracting, it is recommended that is should be effective in monitoring targets and give feedback promptly so as to develop trust, motivation and it should further be used to improve communication, identify problem areas and provide timely interventions. Feedback would enable the bank to cascade down information, provide
progress status and indicate the areas that have either exceeded targets or below targets and hence take corrective measures.

The theory of contracting suggests that to improve performance, performance contracts must not only reduce the information advantage that managers enjoy over owners but also must be motivated through rewards or penalties to achieve the contracts targets. Shirley (1998) argues that the logic of performance contract is persuasive, but the reality has been disappointing and contrary to that.

Since the study deduced that there were frequent transfers of staff midyear which affects the successful achievement of the process since it always needs staff abandon the signed contracts in the middle and sign others in the new stations they have been posted, the study recommends that the bank should come up with a policy that restrict transfer in between the implementation of the performance contract. The study recommends that the bank should link the rewards which are defined by formulation of a policy guide on rewards. Currently, the bank does not have a policy guiding exemplary performance or under performance. There is an urgent need therefore to put in place a policy guide on reward. Once the policy is in place, the application of performance contracting in the bank will be appreciated more.

Postbank should accompany performance contracting with performance-oriented change in the bank's structure and management culture. It should inculcate a culture that empowers staff to embrace and manage the changes that come along and instruments that focus on performance and cost in the field of human resource and financial management should be developed in an integrated manner.

5.5 Limitations of the Study

The current study is not without limitations, there was limited time for carrying out interviews with the right people. This made the researcher to make constant calls to secure meetings with the interviewees and at times unnecessary visits hoping to be
granted interviews but to no avail. It was difficult to find the director operations for the interview because of her busy schedule and hence was referred to her assistant. Further only four interviewees were interviewed which may have reduced the accuracy of the findings.

Being that this was a case study on one company the data gathered might differ from application of performance contracting in strategic management by other organizations in the public sector and the challenges they encounter. This is because different companies adopt different strategies that differentiate them from their competitors. The study however, constructed an effective research instrument that sought to elicit general and specific information on the application of performance contracting in strategic management.

The study faced financial limitations. Due to limited finances the study could not be carried out on the other branches of the bank. The study, however, minimized these by conducting the interview at the bank’s headquarter since it is where strategies are made and rolled out to other branches that operate on the blue print.

5.6 Suggestions for Further Research

The study recommends that a similar study should be carried out in all the commercial banks so as to establish how they are applying performance contracting in strategic management and the challenges they encounter in the implementation. A similar study should also be done in firms in other industries so as to allow for generalization as different industries have different strategic approaches.
REFERENCES


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Respondent

Dear Sir/Madam

RE: REQUEST FOR RESEARCH DATA

I am a postgraduate student in the University of Nairobi pursuing a Master of Business Administration (MBA) program. Am undertaking a management research project as part of the postgraduate requirement. The project that has been approved is ‘Application of performance contracting as strategic management tool at Kenya Post Office Savings Bank’.

The research will explore the application of performance contracting as a strategic management tool and the challenges faced in applying the scheme.

My reason for writing to you is to request you to avail yourself and answer my interview guide in a bid to obtain information for the above study. The information obtained will be used purely for academic purposes.

Thank you in for your cooperation.

Yours faithfully.

LYDIA AZEGELE

MBA STUDENT
APPENDIX 2: INTERVIEW GUIDE

This questionnaire has been prepared in relation to application of performance contracting as a strategic management tool at Kenya Post Office Savings Bank. Please fill it based on your own personal opinion/view and not our team view or what you think is right and should be done.

Personal Profile

1. Gender Please tick one ( ) Male ( ) Female

2. What is your position/designation in the bank?

Application of Performance Contracting

3. What do you understand by performance contracting?

4. When did Postbank institute performance contracting and how many times has it entered into?

5. Strategic planning is carried out in the bank, how is it aligned to performance contracting?

6. Does the bank have a strategic plan guided by the performance contracting implementations?

7. Has performance contracting improved organization's competitive culture?

8. How does Postbank train staff on performance contracting?

9. What tools of performance contracting has the bank used in implementing this system?

10. Postbank as a state corporation, does it align its objectives respond to the sectorial goals identified under vision 2030?

11. Postbank competes with other banks in the market, has the application of performance contracting leveraged the bank to compete favorably with other financial institutions in the market?

12. Performance contracting involves preparation and negotiations with your organization staff, has the organization been adequately engaged in this preliminary stages?

13. Has performance contracting as a strategic management tool helped you in achieving your individual annual targets?

14. What tools are applied in assessing performance contracting?

15. How is performance contracting incorporated in the service charter?
16. After evaluation of performance contracting, how fast are staff informed on the performance?

17. Does the bank have a policy to guide on reward for meeting performance contracting targets?

18. How has performance contracting assisted in the improvement of service delivery and quality improvement?

19. How effective is the monitoring and evaluation committee in tracking the progress of implementing the performance contracting in the bank?

**Challenges of Performance Contracting**

20. What challenges has the bank faced in administering performance contracting?

21. Does Postbank have any constraints in implementation of Performance contracting?

22. Does any of the following pose a challenge in application of performance contracting in the bank?
   - Power and politics
   - External control
   - Leadership
   - Organisation culture

23. What areas do you feel performance contracting should be improved?

24. In your opinion, do you think performance contracting is a good strategic management tool in the bank?

Thank you for your cooperation.