

**EMPLOYEE PERCEPTION OF PERFORMANCE  
CONTRACTING IN K-REP BANK**

**BY:**

**MUNYASIA, JAMES SIMIYU**

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

**NOVEMBER 2012**

## DECLARATION

I declare that this research project is my original work and has never been presented in any other University/College for a degree or any other award.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Munyasia James Simiyu

D61/7104/2006

This research project has been submitted for examination with my approval as the University supervisor.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

M/s Florence Muindi

Lecturer

Department of Business Administration

School of Business

University of Nairobi

## **ACKNOWLEDGEMENTS**

I would like to first and foremost register my sincere and deep gratitude to the Almighty God, who deserves all the honour, glory and praise for He has led me through the MBA program. May His Name be praised!

Secondly my appreciation goes to my supervisor Florence Muindi, for her guidance, advice and constructive criticism throughout the study that enabled me to complete my project. I salute her and wish her God's blessings.

I would also like to thank the management of K-Rep Bank Ltd for granting me the permission to do my study in the organisation. I am so grateful to the staff of the bank who agreed to participate in the study and share their experiences and opinions. Their time and effort are greatly acknowledged and appreciated.

Lastly, I am grateful my wife Agatha Lanoi and son Darren Simiyu for their support, prayers and encouragement throughout the program. May the Lord's grace be with them.

## **DEDICATION**

I dedicate this work to the Lord God almighty, my creator and giver of life. Great is your name.

To my wife Agatha Lanoi and my son Darren Simiyu. I love you all.

## **ABSTRACT**

Once an organization develops its strategy, it is important that the strategy is effectively implemented to achieve the desired results. Strategy implementation is the process of transforming strategic intentions into actions, then actions into acceptable results. Performance contracting is one of the tools that is used in implementing corporate strategy. In order to achieve the desired results through performance contracting, it is important to involve all the employees of the organization in setting the performance contract objectives that are aligned to the corporate strategy. This study laid focus on determining and analyzing employees' perception on the use of performance contracts in achieving the strategic objectives in K-Rep Bank

The objective of the study was to determine the employees' perception of performance contracting in K-Rep bank. The study was conducted through a descriptive survey of all employees' who had signed performance contracts in K-Rep bank. A stratified random sampling technique was employed to select the respondents. The study involved 50 employees of the bank where primary data was collected through a structured questionnaire.

The study revealed that 24% of the employees in the bank had no idea that the bank had a strategic plan in place. On the employees' perception of the effectiveness of performance contracting, it was discovered that employees in the bank were indifferent as to whether the performance contracts were effective in the bank. The employees had an indifferent perception of performance contracts as a way of helping the organization achieve its strategic objectives. They were further categorical that the performance achieved by the employees was not linked to the effective reward and sanction mechanism in the bank. It is therefore recommended that the bank enhances awareness of it employees on the direction that the bank is taking to improve on inclusivity and hence effective implementation.

# TABLE OF CONTENTS

<b>Declaration.....</b>	<b>ii</b>
<b>Acknowledgements .....</b>	<b>iv</b>
<b>Dedication .....</b>	<b>v</b>
<b>Abstract.....</b>	<b>vi</b>
<b>List of tables.....</b>	<b>x</b>
<b>List of figures .....</b>	<b>xi</b>
<b>CHAPTER ONE: INTRODUCTION .....</b>	<b>1</b>
1.1    Background of the Study .....	1
1.1.1    Concept of Perception .....	2
1.1.2    Concept of Strategy Implementation.....	2
1.1.3    Concept of Performance Contracting .....	3
1.1.4    K-Rep Bank Limited .....	4
1.2    Research Problem.....	4
1.3    Objective of the Study .....	6
1.4    Importance of the Study.....	6
<b>CHAPTER TWO: LITERATURE REVIEW .....</b>	<b>7</b>
2.1    Introduction.....	7
2.2    Concept of Strategic Management .....	7
2.3    Strategy Implementation.....	8
2.4    Performance Contracting .....	9
2.5    Perception of Performance Contracting.....	11
2.6    Strategy Implementation and Performance Contracting .....	12

<b>CHAPTER THREE: RESEARCH METHODOLOGY .....</b>	<b>19</b>
3.1 Introduction.....	19
3.2 Research Design.....	19
3.3 Population of Study .....	19
3.4 Sample Design .....	19
3.5 Data Collection.....	20
3.6 Data Analysis .....	20
<b>CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION.....</b>	<b>21</b>
4.1 Introduction.....	21
4.2 General Information .....	21
4.2.1 Respondent’s Department.....	21
4.2.2 Respondent’s Position .....	22
4.2.3 Respondent’s Knowledge of existence of Strategic Plan .....	23
4.3 Employee Perception on the Effectiveness of Performance Contracts .....	23
4.3.1 Setting of Performance Contract Objectives .....	24
4.3.2 Alignment of Strategic Objectives to Performance Contracts.....	25
4.3.3 Availability of Resources .....	27
4.3.4 Communication of Strategic and Performance Contract Objectives .....	28
4.3.5 Leadership.....	29
4.3.6 Performance evaluation and feedback mechanism .....	30
4.4 Discussion .....	31
<b>CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS...33</b>	
5.1 Introduction.....	33
5.2 Summary of Findings .....	33
5.3 Conclusion .....	34

5.4 Recommendations .....35

5.5 Suggestions for Further Research .....35

**REFERENCES .....37**

**APPENDICES .....41**

Appendix I: Questionnaire .....41

Appendix II: Tables .....45



## **LIST OF TABLES**

Table 4.1: Respondent’s Position in the department.....	23
Table 4.2: Setting of Performance Contract Objectives.....	25
Table 4.3: Alignment of Strategic Objectives to Performance Contracts.....	26
Table 4.4: Availability of Resources.....	27
Table 4.5: Communication of Strategic and Performance Contract Objectives.....	29
Table 4.6: Leadership.....	30
Table 4.7: Performance Evaluation and Feedback Mechanism.....	31

## **LIST OF FIGURES**

Figure 4.1: Respondent's Department.....	23
Figure 4.2: Respondent's knowledge of existence of Strategic Plan.....	24

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

Organizations whether for profit, private or public have found it necessary in recent years to engage in strategic management in order to achieve their corporate goals. The environments in which these organizations operate have become not only increasingly uncertain, but also tightly interconnected. This requires a threefold response from these organizations. They are required to think strategically as never before, need to translate their insights into effective strategies to cope with their changed circumstances and lastly to develop rationales necessary to lay the groundwork for adopting and implementing strategies in this ever-changing environment (Bryson, 1995).

Strategies are a critical element in organizational functioning, but whereas most organizations have good strategies, successful strategy implementation remains a major challenge. The notion of strategy implementation might seem quite straight forward; a strategy is formulated and then implemented. In the contrary, transforming strategies into action is a far more complex, difficult and challenging undertaking and therefore not straight forward as one would assume (Aaltonen & Ikavalka, 2001).

Hitachi Consulting Corporation (2009) argue that for strategy execution to become an organizational strength, clear accountability for strategic objectives/initiatives must be in place to focus and align individuals with organizational goals. The Strategy Reporting “scorecard” that provides overall feedback on the performance of the organization can be leveraged to accomplish this goal. By using the same approach for creating performance objectives through performance contracts for individuals/groups, all employees are given personal objectives that are aligned with organizational goals. Performance contracts largely presuppose the existence of corporate strategy and therefore performance contracts implementation becomes a crucial tool in the implementation of a company’s strategy, and its execution in any criteria framework (National Partnership for Reinventing Government, 1999).

### **1.1.1 Concept of Perception**

Lazer and Curley (1983) define perception as the mental impression of a stimulus object, what an individual sees in a perceptual field. Combs & Snygg (1959) argue that people do not behave according to the facts as others see them but rather behave according to the facts as they themselves see them. Kibera and Waruingi (1998) define perception as the process by which people receive, interpret and remember information coming from the world around them. According to Johnson and Scholes (2004), perception is the process by which the individual receives, selects, organises and interprets information in order to create a meaningful picture of the world.

Daft (2000) defines perception as the process people use to make sense out of the environment by selection, organising and interpreting information from the environment. He contends that employee perception of any aspect of their employment will be a function of the intensity or repetitiveness of that aspect. Cole (1997) argues that individual's effort and productivity is determined by their perception of the situation. If staff perception of what is expected of them is consistent with the actual expectations of the organization, then the result is effective performance. However if the staff perception is distorted or inaccurate picture of the reality, then the outcome will be inappropriate behaviour and ineffective performance (Arnold and Feldman, 1996).

### **1.1.2 Concept of Strategy Implementation**

Strategy implementation is the translation of strategy into action. It entails institutionalization and operationalization of strategies and managing the ensuing change. Implementation involves creating fits between the way things are done and what it takes for effective strategy execution, executing strategy proficiently and efficiently, producing excellent results in timely manner and creating fits between strategy and organizational capabilities, reward structure, internal support systems and organizational culture (Irwin, 1995). Hill and Jones (1997), argue that implementation of strategy is a way in which a company creates the organizational arrangement that allows it to pursue its strategy most effectively. Strategy implementation has to do with putting the chosen strategy into action. To make the strategy operational, the organization needs annual objectives,

functional strategies and policies. Strategy implementation entails converting the organization's strategic plan into action and then into results (Njuru, 2007).

### **1.1.3 Concept of Performance Contracting**

According to the Government of Kenya Training manual (2005), performance contracting is a branch of management science referred to as management control systems. Performance contracts are the set objectives between the employee and the management of what he/she is expected to deliver at the end of the performance contract period. It is a part of the bigger strategy or business plan that the organization or a division within the organization is expected to deliver as results through its employees. According to World Bank (1995), Performance contracting is a process of drafting a written or negotiated agreement between two parties wherein quantifiable targets are explicitly specified for a given period and performance is measured against targets at the end of the period.

Blasi (2002) adds that a performance contract is an agreement between two parties that clearly specifies their mutual performance obligations, intentions and responsibilities. The two contracting parties to the contract must consent to the contract for validity to take effect. He further adds that the fundamental principle of performance contracting is the devolved management style where emphasis is management by outcome rather than management by processes. Organization for Economic Co-operation and Development (1999) defines performance contract as a range of management instruments used to define responsibility and expectations between parties to achieve mutually agreed results. Kumar (1994) refers to a performance contract as a Memorandum of Understanding (MoU). Performance contract is a management tool that organizes corporate objectives into simple, monitor-able and measurable performance criteria, which are measured using clear indicators against negotiated performance targets at the end of a specified period (Trivedi, 2004). Performance contracts largely presuppose the existence of corporate strategy and therefore performance contracts implementation becomes a crucial tool in the implementation of a company's strategy and its execution in any performance criteria framework (National Partnership for Reinventing Government, 1999).

#### **1.1.4 K-Rep Bank Limited**

The history and evolution of the bank traces that of its parent organization – K-Rep Group. Established in 1984 as a USAID project, the parent organization was originally known as the Kenya Rural Enterprise Programme (K-REP). Its original purpose was to support Kenyan NGOs in promoting small businesses by providing grants, training, and technical assistance. In July 18th 1987, the project was incorporated as K-Rep Limited, a local NGO. It changed its original strategy of supporting NGOs with grants and technical assistance, to that of advancing loans to the NGOs, in 1989. In the same year it established a micro-credit lending program and established this as the core business and growth area. It also expanded its activities to include research & product development, as well as changing its Technical Assistance (TA) activities to a for-a-fee capacity building service. With these changes the program grew considerably prompting a significant change that saw the creation of K-Rep Bank and two other entities; K-Rep Development Agency – to carry on its research and development work and K-Rep Advisory Services to serve as its consulting wing ([www.k-repbank.com](http://www.k-repbank.com)).

The growth of the bank has been rapid due to the vast and enormous number of people requiring financial assistance especially those that had been labeled ‘unbankable’ by the big banks. This can be explained by the growth strategic plan which was crafted and started being implemented in 2004. The emphasis of growth of the bank branches to take the microfinance as well as the mainstream banking services saw the bank grow from a mere 3 bank branches in 2004 to a current branch network of 34. Currently the bank is running on a five year strategic plan from 2010 to 2014 with the main theme being to increase the clientele base ([www.k-repbank.com](http://www.k-repbank.com)).

#### **1.2 Research Problem**

Strategies are a critical element in organizational functioning, but whereas most organizations have good strategies, successful strategy implementation remains a major challenge. The notion of strategy implementation might seem quite straight forward; a strategy is formulated and then implemented. In the contrary, transforming strategies into action is a far more complex, difficult and challenging undertaking and therefore not straight forward as one would assume (Aaltonen and Ikavalka, 2001). Performance

contracts largely presuppose the existence of corporate strategy and therefore performance contracts implementation becomes a crucial tool in the implementation of a company's strategy, and its execution in any criteria framework (NRP, 1999). To ensure that every employee in the business contributes to achieving the overall strategy of the business, every employee needs a clearly defined performance contract, stipulating the critical outcomes towards focused performance (Bester, 2007).

According to Arnold and Feldman (1996), if staff perception of what is expected of them is consistent with the actual expectations of the organization, then the result is effective performance. They further note that if the staff perception is distorted or inaccurate picture of reality, then the outcome will be inappropriate behavior and effective performance. Performance contracts introduced and signed by the K-rep banks staff to aid in achieving strategic objectives have had mixed perceptions from the organizations staff.

Studies on the performance contracting and the strategy have been widely done by various researchers. Chacha (2009) conducted a research on Performance contracting as a tool for strategy implementation in catering and tourism development levy trustee. The study dwelt on the public sector and it also did not look at employee perception. Kerretts (2008) conducted a research on the factors considered important in the implementation of performance contracts in Kenyan Parastatals. This study only emphasised on performance contracting but did not touch on the effectiveness of the performance contracts. Choke (2008) did a study on the perceived link between strategic planning and performance contracting in Kenyan state corporations. This study addressed the link between the strategy and the performance contracts in state corporations. Simitu (2008) did a study on the effectiveness of the performance contracts in regulatory corporations in Kenya. Other studies (Koske, 2003; Karanja, 2004; Ongaro, 2004; Nyaberi, 2004) only focused on strategic planning practises in Kenyan Public corporations. All these studies concentrated on the Public sector and not the private sector hence the gap in research.

This study therefore will try to answer the question: What is the Employees' perception of the Performance Contracting in K-Rep Bank?

### **1.3 Objective of the Study**

The objective of the study is to determine the employee perception of the performance contracting in K-Rep bank.

### **1.4 Importance of the Study**

The study will highlight the importance of ensuring that the performance contracts are perceived as effective in the implementation phase of the strategy by highlighting the critical issues that make performance contracts effective. It will also benefit the management and staffs of various private and public organisations by making them appreciate the usefulness of performance contracting of achieving strategy.

This study will contribute towards a framework of further research as well as fill the existing gaps in the field of strategic planning and implementation in the private organisations. The study may also be important to future scholars and researchers who may use it as a source of reference when studying effectiveness of performance contracts in other organisations.



## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This Chapter presents a review of the literature related to the purpose of this study. The chapter will aim at the critical point of capturing knowledge and ideas that have been established with regards to the study. The literature review is based on authoritative and original sources such as journals, articles, books, thesis and dissertations.

### **2.2 Concept of Strategic Management**

Strategic management is the systematic approach to a major and increasingly important responsibility of general management to position and relate the firm to its environment in a way, which will assure its continued success and save it from surprises (Comerfor and Callaghan, 1985). According to Pearce and Robinson (1997), strategic management is defined as the set of decision and actions that results in the formulation and implementation of plans designed to achieve the organizations objectives. It is the direction and scope of an organization over the long term, which achieves advantage for the organization through its configuration of resources within a changing environment to meet the needs of markets to fulfill stakeholder expectations (Johnson and Scholes, 2000).

Thompson and Strickland (1989), Irwin (1995), outlined five tasks in the strategic management process; developing a strategic vision and mission, setting objectives, crafting a strategy, implementing the strategy and evaluating performance and initiating corrective adjustments. Kazmi (2002), Machuki (2006) note that as a process, strategic management consists of different phrases which are sequential in nature, namely strategic intent, formulation, implementation, evaluation and control. This division is intended for orderly study as in real life situations the activities are interlinked and intertwined depending on the nature of strategy, size of the organization and environmental factors faced by the organization.

Strategic management process involves understanding the strategic position of an organization, making strategic choices for the future and turning strategy into action (Johnson and Scholes, 2004). This can also be looked at as strategic analysis, choice and

implementation. Porter (1980) noted that strategic analysis is an element in the strategic management processes that assesses the impact of the external environment, organization capability and stakeholder expectations. It is concerned with understanding the different forms affecting the organization, and its choice of strategies. Based on the results of the analysis carried out, a firm establishes its strategic position. Johnson and Scholes (2004) state that strategic choice involves understanding the underlying basis for future strategy at both the corporate and business unit level and the option for developing strategy. Strategy implementation is how strategy is put into action. Some argue that strategy implementation is the most difficult and important part of strategic management (Bourgeois and Brodwin, 1984). Strategy implementation involves using several tools, that is, parts of the firm that can be adjusted to put strategy into action. Once a new strategy is selected, it is implemented through changes in leadership, structure, information and control systems and human resources (Galbraith and Kazanjian, 1986).

### **2.3 Strategy Implementation**

Hill and Jones (1997) argue that implementation of strategy is a way in which a company creates the organizational arrangement that allows it to pursue its strategy most effectively. Strategy implementation has to do with putting the chosen strategy into action. To make the strategy operational, the organization needs annual objectives, functional strategies and policies. Strategy implementation entails converting the organization's strategic plan into action and then into results (Njuru, 2007). Putting a strategy in place and getting the organization to execute it will call for a different set of managerial tasks and skills. It is the job for the whole management team and not a few senior managers (Thompson and Strickland, 2003).

Beer and Eisenstat (2000) emphasized that the strategy implementation could be more difficult than thinking up a good strategy. Harrison and Pelletier (1998) explained that the real value of a decision surface only after the implementation of a decision. In other words, it will not be enough to select a good decision and effective results will not be attained unless the decision is adequately implemented. Hill and Tyler (1991) argued that it is essential that strategic level manager's demographic characteristics should have been examined for the formulation and implementation of strategic decision.

Christesen and Donovan (1998) mentioned that intended strategies would be implemented as they have been envisioned if three conditions were met. First, those in the organization must understand each important detail in management's intended strategy. Second, if the organization is to take collective action, the strategy needs to make as much sense to each of the members in the organization as they view the world from their own context as it does to the top management. Finally, the collective intention must be realized with little unanticipated influence from outside political, technological or market forces. Successful strategy implementation, it is suggested, requires sound mechanisms for directing activity and behavior, especially including effective communication systems as well as appropriate strategic and management controls (Goold, 1991).

#### **2.4 Performance Contracting**

Kiboi (2006) argues that performance contracting develops a sense of direction for an organization, a conviction that the business cannot operate successfully without performance contracting, performance targets and measures kept in pace with emerging technologies and trends. Performance contracting acts as an effective tool for improving performance in the organization. According to Organisation for Economic Co-operation and Development (1999), a performance contract basically comprises two major components namely, determination of mutually agreed performance targets and the review and evaluation of periodic and terminal performance. The study further adds that the fundamental principle of performance contracting is the devolved management style where emphasis is management by outcome rather than management by process. Shirley and Xu (2000) argue that performance contracting assumes that the organizations objectives can be maximized, and performance improved, by setting targets that take into account the constraints placed on employees. For this to occur though, they argue that the organizations must be willing to explicitly state their objectives, assign to them priorities and weights, translate them into performance improvement targets, provide incentives to meet these targets (or monitor the enterprise without incurring significant costs), and credibly signal their commitment to the contract.

Performance-Based Management Special Interest Group (2001) argue that performance contracts focus on outcomes that support short and long term objectives. It is simply a performance based contract which the principal defines its objectives and lets the agency decide how best to meet them. Nellis (1998) observes that performance contracts are negotiated agreements as owners of an enterprise, and the enterprise itself, in which the intentions, obligations and responsibilities of the two parties are freely negotiated and then clearly set out. In order for people to do their job and successfully serve the business, they need to be very clear of what is expected of them on a day-to-day basis. It is important that the organization signs a performance contract with each employee. In other words, a contract outlines the Key Performance Areas (KPA's) of the employee – the critical areas necessary for successful job performance. Such a contract gives the employee clear guidelines as to what to focus on in his/her job and it allows the manager to measure the employee's performance in an objective manner. A performance contract ensures that both parties are clear as to the performance expectation (Bester, 2007).

A performance contract addresses economic, social or other tasks that an agent has to discharge for economic performance or for other desired results. It organizes and defines tasks so that management can perform them systematically, purposefully, and with reasonable probability of accomplishment. It also assists in developing points of view, concepts and approaches for determining what should be done and how to go about it. Performance contracts comprise determination of mutually agreed performance targets, review and evaluation of periodic and terminal performance (England, 2000).

Trivedi (2004), explains that the presence of performance contracts ideally prevents the vicious cycle of the 'not me' syndrome. The syndrome depicts a situation whereby no one wants to be blamed for the management problems. He further explains that in order to break the vicious cycle of blames, a performance contract should be installed to improve the correlation between planning and implementation. He further stresses that an effective performance improvement system should have the following salient features; performance information system, performance evaluation system and performance incentive/sanction system.

## **2.5 Perception of Performance Contracting**

Individuals are different in terms of how they view the world around them, how they interpret and react to different stimuli and situations, and how they assign meaning to different phenomena. Hence, perception is formed because of how these individuals, in general, view the world around them and form a coherent picture of it (Michira, 2007). Perception is largely selective. Selectivity of perception serves as a filter through which potentially important or favourable experiences will be allowed to flow, while potentially unimportant or unfavourable experiences are locked out (Kibera and Waruingi, 1998). A motivated person is ready to act. How the motivated person acts is influenced by his or her perception of the situation (Kotler, 2000).

Rhodes and Eisenberger (2002), note that staff perception in any organization is important as these perceptions influence organizational performance. Employees value growth and career opportunities in an organization. With such opportunities, productivity is often increased and expensive turnover decreased. Studies have shown that people are most productive when objectives are set at a motivating level- so high enough to challenge but not so high as to frustrate or so low as to be easily attained. The problem is that individuals and groups differ in their perception of high enough (Pearce and Robinson, 1991).

Nzuve (2007) has articulated the importance of perception by stating that peoples' behaviour is based on their perception of reality. According to Arnold and Feldman (1996), if staff perception of what is expected of them is consistent with the actual expectations of the organization, then the result is effective performance. However if staff perception is distorted or inaccurate picture of reality, then the outcome will be inappropriate behaviour and ineffective performance.

A critical factor that can influence the success of performance contracting is how employees perceive it. Cole (1997) defines employees as individuals who over a given time invest a large proportion of their lives in their organizations. Unlike other resources in an organization, employees are complex beings, who are influenced by and can act on the basis of their perception. Employees' perceptions in an organization are crucial to its success since the driving force behind the success, or otherwise of the business rests on

its employees. Perception is influenced by intelligence, personality, expectations, motivation and interests. Perceptions are developed over time and can change as new information and experiences are acquired (Bennet, 1997).

Kelly (1995) notes that employees develop a set of filters through which they make sense of the conditions surrounding their work place. He calls these 'personal constructs' which channel the way employees conceptualise and anticipate events. Thus employees will most likely have expectations (perceptions) of the organizational strategic plan even before it is implemented. They will also have expectations on how management should address issues affecting them. If these perceived expectations are not met, then discontent results and may lead to workers quitting. Miguel (2003) and Nyawade (2005) conclude that perception studies can be used to measure gaps between current and expected performance and to identify systematic level measures of desired metrics that link performance and track changes of an organization.

## **2.6 Strategy Implementation and Performance Contracting**

One of the keys to successful strategy implementation is for management to communicate the case for organizational change so clearly throughout the ranks to carry out the strategy and meet performance targets. Management's handling of the strategy implementation process can be considered successful if and when the company achieves the targeted strategic and financial performance and shows good progress in realizing its long-range strategic vision (Johnson and Scholes, 2002). The execution of strategy depends on individual members of the organization especially key managers. Motivating and rewarding good performance for individuals and units are key success factors in effective strategy implementation. The reward system aligns activities and objectives of individuals and units with the objectives and needs of the firms strategy (Shirley, 2000).

Alexander (1985) outlines the following tools for successful strategy implementation; annual objectives, policies and functional strategies. He defines annual objectives as guidelines for action, directing and channeling efforts and activities of the organizational members. They provide a source of legitimacy in an enterprise by justifying activities to stakeholders. They also serve as a standard of performance and give incentives for all to perform. According to David (1997), they are essential because they represent a basis of

allocating resources, primary mechanism for evaluating managers, major instrument for monitoring progress towards achieving long-term objectives and establish divisional and departmental priorities. They translate long-run aspirations into this year's targets. If well-developed, they provide clarity, powerful motivator and facilitate strategic implementation (Pierce and Robinson, 1994).

According to Monabis Consulting (2007), despite the experience of many organizations, it is possible to turn strategies and plans into individual actions, necessary to produce a great business performance. But it's not easy. Many companies repeatedly fail to truly motivate their people to work with enthusiasm, all together, towards the corporate aims. Most companies and organizations know their businesses, and the strategies required for success. However many corporations - especially large ones - struggle to translate the theory into action plans that will enable the strategy to be successfully implemented and sustained.

PBMSIB (1999) argues that performance contracting systems succeed only when the organization's strategy and performance measures are aligned. Accountability for performance is critical factor in any successful performance measurement criteria. For a structured approach which focuses on strategic performance objective; provides a mechanism for accurate reporting; bring all stakeholders into planning and evaluation of performance; provide a mechanism for linking performance to budget expenditures; provides a framework for accountability; and share responsibility for performance improvement. Murphy (2004) alludes that there should establish accountability and alignment of performance expectations with organizational goals; tracking of organizational goals, and facilitation of their achievement; focus on results, rather than subjective assessment, thus motivating improved employee performance; development and maximization of the unique skills and capabilities and provision of a systematic framework to integrate pay, performance and reward systems.

Performance contracts largely presuppose the existence of corporate strategy and therefore performance contracts implementation becomes a crucial tool in the implementation of a company's strategy and its execution in any performance criteria framework (National Partnership for Reinventing Government, 1999). The corporate

strategy is always cascaded to each business unit/department through business plans and eventually to each employee through performance contracts which guide the employees on the objectives and targets to be achieved. To become performance driven and hence successful in the market, organizations must firstly align the objectives and resources of the different parts of the organisation; secondly, they must cascade objectives down into the workforce and manage workforce performance; and thirdly, they need to understand organisational and individual performance using real-time information (Thompson and Strickland, 2003).

Bester (2007) argues that for performance contracts to have meaning in business, they must be living documents. This means: They must be defined at the highest level. Performance contracts are not detailed job descriptions, however they define the critical outcomes necessary for the success of the job; They must be used regularly; They must be reviewed regularly; They must be continually aligned with the strategy of the business; They must carry incentives for top performers; They must carry performance consequences for poor performers; They must be for all employees in the business. A clearly defined and documented performance contract benefits both the employee and his/her superior.

One of the advantages of the performance contract system is that it makes the strategy of the department clear to all its operational units and, above all, spells out the resources that will be made available for achieving the targets that they have formally undertaken to meet. In this respect, while the contract may indeed place the emphasis on the results delivered by local services, it also places special attention on the “way forward” which will enable them to achieve long-term results. This very practical approach clearly aims at avoiding goal-setting just for the sake of it, without a realistic idea of the problems or how to solve them (Organization for Economic Co-operation and Development, 1999). In building a result-oriented agency, which is the bottom-line of performance contracting, the corporation’s mission areas should provide expected specific outcome goals that are aligned with the strategic plan’s implementation framework. Specific action programs for the corporation’s strategies thrusts need to be aligned with resources allocation in the



implementation framework, all geared towards efficiency, effectiveness and sustainable improved performance (Murphy, 2004).

Ortiz et, al (2004) argues that a key element of a fully successful performance contracting system is the definition of the cascade of objectives at each level of the organization that contribute to the overall achievement of the goals set for it by the governing bodies, and the establishment of a virtual, unbroken, vertical chain that shows linkages between each of these levels down to individual responsibilities. They further add that unless managers are ready to make a fair assessment of their staff's performance and take action accordingly, and unless staff members are ready to accept the managers' prerogative and responsibility to do so, the most sophisticated tools will fail.

Tapscott (2002) argues that in a high performance enterprise, employees understand why they do what they do. Management fully exploits new communication hardware and software to explain to employees how their work contributes to corporate objectives. Management in a high performance enterprise knows that hammering out corporate strategy in the boardroom is actually the easy part. Their ability to translate the strategy to operational objectives—with line of sight from top to bottom—is why they beat the competition. He further adds that workers are the yardsticks to measure whether they are doing the job and executing business functions well. It's the best way for both workers and management to know whether their performance is the best possible and if resources are deployed most effectively. Indicators of successful business strategy implementation are tracked, communicated, and managed across the enterprise to help it understand its marketplace performance. The tools include templates that consistently evaluate individual performance and development. Publishing specific goals of all groups and managers and tracking progress against those goals creates transparency and understanding across the organization. Emphasis on performance contracting for delivery of results is undoubtedly influenced by the basic assumption of performance management which lies in its professed ability to unite the attention of institution members on a common objective and galvanize them towards the attainment of this objective (Balogun, 2003).

Performance targets are to be negotiated and not imposed arbitrarily from the top. Managers are to be left free to manage the functions within agreed parameters once the performance targets have been set; performance is to be judged at the end of year systematically against the targets negotiated at the beginning of the year; to carry out performance evaluation there is need to have balance in availability of information between the evaluator and the evaluated; to establish trust, evaluation need to be done by expert third party independent evaluators who can demand information and make binding recommendations; and performance is to be linked to a system of incentives for good performance and sanctions for poor performance (Langat,2006).

Grapinet (1999) adds that effectiveness of performance is evaluated on how well the employees and eventually the organization as a whole meet their responsibilities. To measure the effectiveness of performance contracts, performance evaluation is necessary. It underlies the all important paradigm that “what gets measured gets done”. It involves assessment of the extent to which the organization as a whole has achieved agreed performance targets. Effectiveness look at whether the program is logically designed to address all mandated and voluntary requirements (design effectiveness),and whether a performance contract is actually operating as designed (operating effectiveness).In this sense, the evaluation helps to determine if a contract is delivering required outcomes and appropriately reflecting the corporation’s voluntary promises. Larbi (2001) notes that one of the key planks of management of organizations is its emphasis on performance or accountability for results. This has taken various forms, including setting explicit standards and measures of performance, more transparent methods of reviewing the performance of individuals and organizations and sometimes linking this to rewards and sanctions. Performance contracts and performance agreements are central to this trend and have become one of the tools for enhancing performance and accountability.

Performance-Based Management Special Interest Group (2001), National Partnership for Reinventing Government (1999) and Organization for Economic Co-operation and Development (1999) cite leadership in championing the course; existence of a strategic plan with clear organizational objectives; a conceptual framework to enable the organization to focus its measures; commitment by everyone since the degree of

commitment will determine the degree of success; and involvement of all stakeholders, customers and employees' involvement individually tailored depending on size and structure of the organization as the dimension forming major components of an integrated performance measurement system whose inclusion would result in good performance contracts and eventual successful implementation.

To ensure success in implementation and sustainability of the process of performance contracting, it is important to link it with other management system. Lack of integration between management systems is a key shortcoming of existing systems with organization's missing out on potential benefits of performance contracting is better linking resource allocations to results. A high level of commitment from the interested parties and feasible targets in terms of budget allocation has been traced to successful performance implementation (National Partnership for Reinventing Government, 1999).

Government of Kenya (2005a), Organization for Economic Co-operation and Development (1999), Mann (1995) suggest that a standard performance contract should consist three sub-systems, namely performance information system, performance evaluation system and performance sanction/incentive system. Performance information system relates to the need for reasonable information balance between the parties in the process of negotiating performance targets. Performance evaluation system comprises of performance measurement criteria and evaluation systems. Finally performance sanctions/incentive system relates to a system that links rewards/sanctions with measurable performance. It is also essential to ensure that other resources necessary in the smooth operation of the contract are in place. Management should further ensure that there is flow of information to both parties in the form of feedback as well as information required/necessary to make the performance of both parties successful.

Performance contracts have not always been an easy process to implement, while the overall design of the contract meets most international standards, some challenges have become evident. It should be noted that despite all the efforts and best intentions of all the parties involved in performance contract implementation 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).

Some challenges of performance contracts lie with the difficulties of measuring performance indicators. Some performance indicators may not be representative of the real performance of the business unit over the service area because the control points are not properly selected. Also there is lack of precision of certain aspects and terms on the contract although the contract is rather comprehensive and covers all major issues, numerous amendments have to be made in order to suit a particular objective of the organization (Simitu, 2008).

According to Kobia and Mohammed (2006), they conclude that some of the problems experienced during the implementation of the performance contract include lack of adequate resources; resources not being released on time; some performance targets were highly ambitious and unplanned transfer of staff. Hitachi Consulting Corporation, 2009 conclude that in many companies, individual and group incentives are focused on subjective evaluation of performance against goals that may or may not be aligned with overall strategy. It has been estimated that only 25% of managers have their personal objectives linked to strategy. If personal and group incentives are not aligned with company intentions, driving desired performance is nearly impossible.

Shirley (1998) and Okumu (2004) cite causes of failure of performance contracting to erosion of trust; lack of both intrinsic and extrinsic motivation; information asymmetry; insufficient commitment of both parties to the contract; poor incentives; imposition by management; no prior negotiations and contract terms willingly agreed to; managers who have various stakeholders that bring about conflicting objectives.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This study was carried out with an aim of identifying the perception of performance contracts by employees of K-Rep bank. This chapter gives details on how the research was carried out.

### **3.2 Research Design**

This study was conducted through a descriptive survey of K-Rep bank's staff. A descriptive research portrays an accurate profile of persons, events, or situations (Robson, 2002). Surveys allow the collection of large amount of data from a sizable population in a highly economical way. It allows one to collect quantitative data which can be analyzed quantitatively using descriptive and inferential statistics (Saunders, 1997).

### **3.3 Population of Study**

The population of interest in this study consisted of all the 407 employees of the bank who had signed a performance contract (Appendix II). These employees were from various departments namely; Operations department, Finance HR and Administration department, Information Technology (IT) department and Credit department.

### **3.4 Sample Design**

A stratified random sampling technique was employed to select the respondents. Stratified sampling was chosen as the most suitable method since staff in each department had signed performance contracts that had different objectives/targets from those of other departments. Each department formed a strata from which sampling was obtained. Random sampling was then used to select a sufficient number of subjects from each department. To make sure that the sample was representative, supervisory and non-supervisory staff formed the second level of stratification. Mugenda and Mugenda (1999) contend that a sample size should be at least 10% of the population if the results are to be meaningful to a larger population. In each of the staff levels, all staff members were considered if the number was less than 10 staff members while a sample of 10% was considered if the population was equal to or greater than 10 staff members (Appendix II).

### **3.5 Data Collection**

The study used primary data that was collected by way of a structured questionnaire which consisted of closed ended questions. The questionnaire was divided into two sections; Section A solicited for data on general information about the respondent; Section B covered information pertaining to employee's perception of the performance contracts. The questionnaire was administered by way of e-mail or 'drops and pick later'.

### **3.6 Data Analysis**

The data collected from the field was coded, analyzed and processed into meaningful and relevant information. Analysis of data was guided by the objectives of the study. Because of the descriptive nature of the data collected, the study used descriptive statistics to analysis the data by way of percentages, frequencies mean and standard deviations. The results were then presented using tables, graphs, and charts.

## **CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION**

### **4.1 Introduction**

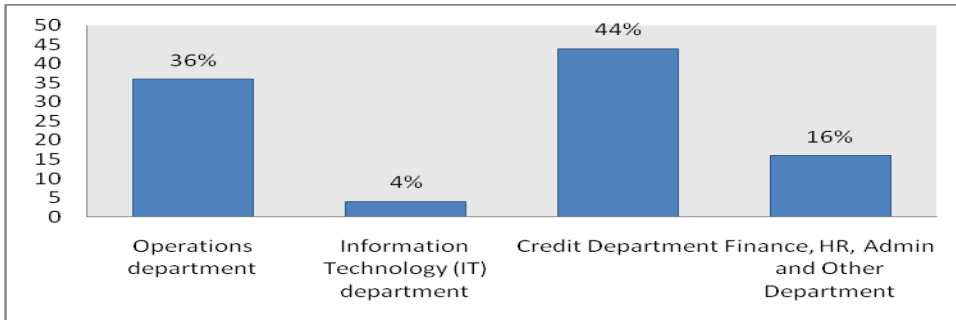
This chapter presents the data that was found on an investigation into the employee perception on the effectiveness of performance contracts in K-Rep bank. The research was conducted on sample size of fifty six (56) employees of the bank. However, out of the issued questionnaires, only 50 were returned duly filled making a response rate of 89.3% adequate for statistical reporting. Mugenda and Mugenda (1999) stated that a response rate of 50% and above is a good for statistical reporting. The study made use of frequencies (absolute and relative) on single response questions. On multiple response questions, the study used Likert scale in collecting and analyzing the data whereby a scale of 5 points were used in computing the means and standard deviations. These were then presented in tables, graphs and charts as appropriate with explanations being given in prose.

### **4.2 General Information**

The study initially sought to inquire information on various aspects of respondents' background, i.e. the respondent's department, position/ designation and whether there exist a strategic plan in the bank. This information aimed at testing the appropriateness of the respondent in answering the questions regarding employee perception on the effectiveness of performance contracts.

#### **4.2.1 Respondent's Department**

In order to assess employees' perception, the respondents were required to indicate the department in which they belong. The respondents were either from Operations department, Finance HR and Administration department, Information Technology (IT) department or Credit department. Figure 4.1 below shows the distribution of the respondents within various departments.



**Figure 4.1: Respondent’s department**

From figure 4.1 above, 44% of the respondents were from credit department, 36% from operations department, 16% from finance, HR, admin and other department, while 4% from Information Technology (IT) department. These findings mean that there was representation of employees from the various departments of K-Rep bank with most employees from credit department.

#### **4.2.2 Respondent’s Position**

The study further aimed at finding out the respondent’s position in his/her department. Table 4.1 below shows the distribution of the respondents’ positions in the form of frequencies and percentages.

<b>Position</b>	<b>Frequency</b>	<b>Percent</b>
Manager	17	34.0
Officer	33	66.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

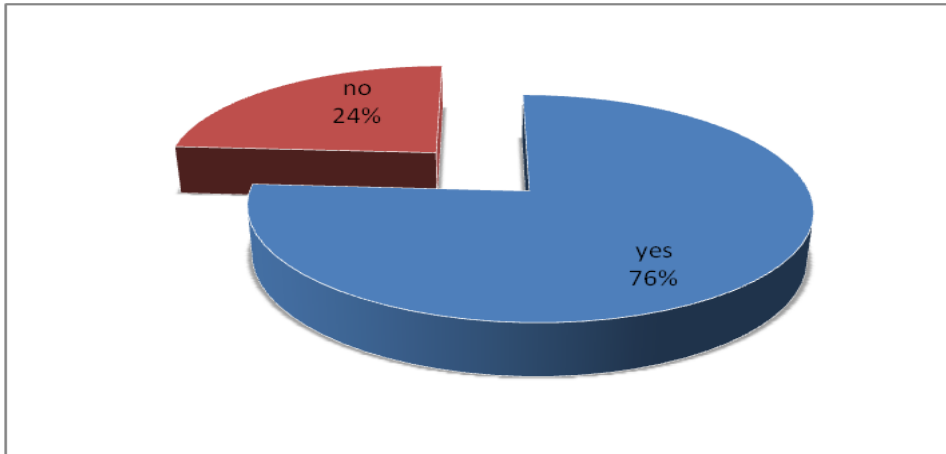
**Table 4.1: Position in the department**

From table 4.1 above, 66% of the respondents were officers while 34% were managers. The findings thus indicate that majority of the employees from K-Rep bank who participated in the study were officers drawn from the various departments hence depicting credibility and reliability of the data on employee perception on the effectiveness of performance contracts.



### 4.2.3 Respondent's Knowledge of existence of Strategic Plan

In this last question under general information, the respondents were required to indicate whether they were aware that K-Rep bank had a strategic plan or not. Figure 4.2 below shows percentages of the respondents' knowledge of availability of strategic plan.



**Figure4.2: Respondent's knowledge of existence of strategic plan**

From the figure, 76% of the respondents agreed that they had knowledge that K-Rep bank has a strategic Plan, while 24% denied. The findings hence indicate that majority of the employees from K-Rep bank, are aware of the existence of strategic plan.

### 4.3 Employee Perception on the Effectiveness of Performance Contracts

In order to assess employees' perception on performance contract objectives, the respondents were requested to indicate their level of agreement on the extent to which the following statements are reflected at K-Rep bank. The responses were rated on a five point Likert scale where: 1 - Strongly Disagree 2 - Disagree 3 - Neutral 4- Agree and 5- Strongly Agree. On a continuous likert scale, responses of 1 to 2.5 were classified as 'Disagree' ( $1 \leq D.A \leq 2.5$ ), responses of 2.6 to 3.5 were classified as 'Neutral' ( $2.6 \leq N.E \leq 3.5$ ) and responses of 3.6 to 5 were classified as 'Agree' ( $3.6 \leq A.G \leq 5$ ). A standard deviation of between ( $0 \leq S.D \leq 1.0$ ) indicated an insignificant variation of the response aspects and ( $1.0 < S.D$ ) indicated significant variation.

### 4.3.1 Setting of Performance Contract Objectives

In order to assess employees' perception on the setting of performance contract objectives, the respondents were requested to indicate their level of agreement on the extent to which the following statements are reflected at K-Rep bank. The mean and standard deviations are as illustrated in table below.

	Manager's Mean	Officer's Mean	Overall Mean	Overall Std. Dev
Top management set the Performance targets to be met.	3.35	3.78	3.64	1.225
All staffs are involved in the setting of targets of the Performance contract which are in line with the strategic plan.	2.88	2.36	2.54	1.417
	<b>Average</b>		3.09	1.321

**Table 4.2: Setting of Performance Contract Objectives**

From table 4.2 above, respondents were asked whether top management set the Performance targets to be met and those under the manager's position were neutral [M=3.35] while respondents under the officer's position agreed [M=3.78]. In the overall, all respondents agreed [M=3.64] that top management set the Performance targets to be met. On all staffs being involved in the setting of Performance contracts targets which are in line with the strategic plan, those in the manager's position were neutral [M=2.88] while respondents under the officer's position disagreed [M=2.36]. In Overall all respondents disagreed [M=2.54] that all staff are involved in the setting of targets of the Performance contract which are in line with the strategic plan. Responses under both questions indicated significant variations [S.D=1.2] and [S.D=1.4] respectively. This was because of the variations in responses between the officers and managers.

These overall findings therefore indicate that staff in K-rep bank are indifferent [M=3.09] on whether the top management of K-Rep bank set the performance targets to be met and also whether all staff are involved in the setting of targets of the performance contract

which are in line with the strategic plan. However there are significant variations in the perceptions on whether top management sets the performance targets to be met with officers agreeing to the position and managers being indifferent while on whether all staffs are involved in setting performance contract targets that are in line with strategic plan, managers again are indifferent while officers disagree.

#### 4.3.2 Alignment of Strategic Objectives to Performance Contracts

The study in this part aimed at evaluating the employees' perception on alignment of strategic objectives to performance contracts. The findings are as illustrated in table below.

	Manager's Mean	Officer's Mean	Overall Mean	Overall Std. Dev
Performance contracting acts as an effective tool for achieving the objectives of the bank	3.8824	3.6667	3.74	0.9
The overall strategic objectives to be achieved are cascaded from the top management to all staff through performance contracts	3.7059	3.3939	3.5	1.04
Performance Contracts are in line with the business plan that is adopted from the corporate strategy	3.3529	3.2424	3.28	1.03
Performance contracts have helped the bank implement its strategic plan	3.2941	3.0606	3.14	0.9
Improvements are always done to enhance the effectiveness of performance contracts in achieving the banks strategic objectives	3.2941	2.9697	3.08	1.12
There is a clear link between performance contracts and the strategic	3.0588	3.0000	3.02	1.1

plan of the bank				
The banks capacity to achieve its strategic objectives has greatly improved with the introduction of performance contracts	3.1176	2.9394	3	1.03
	<b>Average</b>		3.25	1.01

**Table 4.3: Alignment of Strategic Objectives to Performance Contracts**

From table 4.3 above, both categories of respondents agreed [M=3.88,M=3.66] and the overall mean of [M=3.74] that performance contracting acts as an effective tool for achieving the objectives of the bank. On the overall strategic objectives to be achieved being cascaded from the top management to all staff through performance contracts, respondents under the manager’s position agreed [M=3.7] while those under the officer’s position were neutral [M=3.3].However on the overall response, the respondents were neutral [M=3.5]. They were all neutral that performance contracts are in line with the business plan that is adopted from the corporate strategy [M=3.3, M=3.2] and on whether performance contracts have helped the bank implement its strategic plan [M=3.2, M=3.0]. In addition respondents from both categories were neutral [M=3.2, M=2.9] that improvements are always done to enhance the effectiveness of performance contracts in achieving the banks strategic objectives as well as on the issue that there is a clear link between performance contracts and the strategic plan of the bank with means of [M=3.05, M=3.00] for both categories respectively. Finally, the bank’s capacity to achieve its strategic objectives has greatly improved with the introduction of performance contracts also returned a response of neutral [M=3.1, M=2.9] for both positions.

Performance contracting acts as an effective tool for achieving the objectives of the bank and Performance contracts have helped the bank implement its strategic plan recorded an insignificant variation in the responses [S.D=0.9] for both. The rest of the questions recorded significant variations in the responses [S.D > 1.0]. This was because of the variations in responses between the officers and managers.

These findings therefore depicts an indifference by all staff [M=3.25] on whether the strategic objectives were aligned to the performance contracts. However there is

significant variation in the perception of whether the strategic objectives to be achieved are cascaded from the top management to all staff through performance contracts with the staff in the officers' position being indifferent while those in the managers' position are in agreement.

### 4.3.3 Availability of Resources

The study in this section aimed at establishing the respondent's views on the availability of resources to achieve the bank's target. The findings are as illustrated in table below.

	Manager's Mean	Officer's Mean	Overall Mean	Overall Std. Dev
The bank as directed by performance contracts allocates adequate Human resources to enable achieve the set strategic targets	3.0000	2.4848	2.66	1.081
The bank as directed by performance contracts allocates adequate Financial resources to enable achieve the set strategic targets	2.7647	2.4242	2.54	1.199
	<b>Average</b>		2.6	1.14

**Table 4.4: Availability of Resources**

From table 4.4 above, respondents were asked whether the bank as directed by performance contracts allocates adequate human resources to enable achievement of the set strategic targets and those under the manager's position were neutral [M=3.00] while respondents under the officer's position disagreed [M=2.48]. The overall response however was neutral [M=2.66]. On whether the bank as directed by performance contracts allocates adequate financial resources to enable achieve the set strategic targets, those under the manager's position were neutral [M=2.76] while respondents under the officer's position disagreed [M=2.42]. The overall response however was neutral [M=2.54]. The overall variations in responses was significant [S.D= 1.14] due to the different positions' responses.

The overall findings therefore indicate that all staff are indifferent [M=2.6] that K-Rep bank as directed by performance contracts allocates adequate resources to enable the bank achieve the set strategic targets. However there are significant variations in the perception with the staffs in the officer position disagreeing while the managers are indifferent on whether the bank allocates adequate human and financial resources to enable that bank achieve the set strategic targets.

#### 4.3.4 Communication of Strategic and Performance Contract Objectives

The study in this part aimed at getting the respondent's perception on communication of strategic objectives and performance contract parameters to the staff in the bank. The findings are as presented in the table below;

	Manager's Mean	Officer's Mean	Overall Mean	Overall Std. Dev
Measures expressed in the performance contract are well defined and easy to understand	3.3529	3.0000	3.12	1.023
The staffs know the importance of performance contracts in implementing corporate strategy	3.3529	2.7576	2.96	1.177
The Targets set in the Performance contracts are realistic and therefore achievable in the timelines set	2.8235	2.4242	2.56	1.128
	<b>Average</b>		2.88	1.109

**Table 4.5: Communication of Strategic and Performance Contract Objectives**

From table 4.5 above, both categories of respondents were neutral [M=3.35, M=3.00] and the overall mean of [M=3.12] that measures expressed in the performance contract are well defined and easy to understand. In addition they were also neutral [M=3.35, M=2.75] and the overall mean of [M=2.96] that the staffs know the importance of performance contracts in implementing corporate strategy. On whether the targets set in the performance contracts are realistic and therefore achievable in the timelines set, those

under the manager’s position were neutral [M=2.82] while respondents under the officer’s position disagreed [M=2.42]. The overall response however was neutral [M=2.56]. The overall variations in responses was significant [S.D= 1.10] due to the different positions’ responses.

The overall findings therefore indicate that all staff are indifferent [M=2.88] on whether K-Rep bank effectively communicates the strategic objectives and performance contract parameters to all staff. However there are significant variations in the perception with the staffs in the officer position disagreeing while the managers are indifferent on whether the targets set in the performance contracts are realistic and therefore achievable in the set timelines.

#### 4.3.5 Leadership

In order to assess employees’ perception on the influence of leadership on performance contracts, the respondents were requested to indicate their level of agreement on the extent to which the following statement is reflected at K-Rep bank. The findings are as illustrated in table below;

	Manager’s Mean	Officer’s Mean	Overall Mean	Overall Std. Dev
The Top management of the Bank attaches much importance to performance contracts as a tool in achieving the banks	3.2353	3.5455	3.44	1.128

**Table 4.6: Leadership**

From table 4.6 above, all the respondents were neutral that the top management of the bank attaches much importance to performance contracts as a tool in achieving the banks strategic objectives [M=3.44]. Varied responses were recorded as indicated by [S.D=1.12]. The overall finding is that all staffs are indifferent as to whether K-Rep’s top management attaches much importance to performance contracts as a tool in achieving the banks strategic objectives.

#### 4.3.6 Performance evaluation and feedback mechanism

The study in this section aimed at finding out the respondent's perception on performance evaluation and feedback mechanism in the bank. The findings are as presented in the table below;

	Manager's Mean	Officer's Mean	Overall Mean	Overall Std. Dev
Performance evaluation is regularly done to measure actual performance against targeted results.	3.8824	3.7879	3.82	0.896
Feedback mechanism in the administration of the Performance outcomes is very effective.	2.8824	2.9697	2.94	2.951
Performance achieved is linked to an effective reward and sanction system.	2.6471	1.8182	2.1	1.129
	<b>Average</b>		2.95	1.658

**Table 4.7: Performance evaluation and feedback mechanism**

From table 4.7 above, both categories of the respondents agreed [M=3.88, M=3.78] and overall [M=3.82] that performance evaluation is regularly done to measure actual performance against targeted results. They were however neutral [M=2.88, M=2.96] and overall [M=2.94] that feedback mechanism in the administration of the performance outcomes is very effective. On whether the performance achieved is linked to an effective reward and sanction system, those under the manager's position were neutral [M=2.64] while respondents under the officer's position disagreed [M=1.81]. The overall response however was that respondents disagreed [M=2.1]. Variations in responses on whether performance evaluation is regularly done to measure actual performance against targeted results recorded an insignificant variation [S.D=0.89] while responses to the next two recorded a significant variation [S.D=2.95] and [1.12].

The overall findings therefore is that all staff in the bank are indifferent [M=2.95] on the effectiveness of performance evaluation and feedback mechanism in K-Rep bank. However there is significant variation in the perception on whether performance achieved



is linked to an effective reward and sanction system with staff in the position of officers disagreeing while those of the managers' position being indifferent.

#### **4.4 Discussion**

The findings and the conclusions in this study are comparable to the findings of the study by Onyancha (2011) who studied the impact of performance contracting on performance at the ministry of trade concludes his study that setbacks to the performance contracting include lack of adequate resources, highly ambitious performance targets. Poor worker motivation, poor understanding on the need for the performance contracts and improper implementation of the performance contracting. He adds that the stlye of setting performance contract targets needs to be reviewed and changed so that it can be all inclusive. Staff should take part in setting their targets and be motivated to achieve the targets.

Tapscott (2002) argues that in a high performance enterprise, employees understand why they do what they do. Management fully exploits new communication hardware and software to explain to employees how their work contributes to corporate objectives. The researcher in this study concludes that the bank's employees have not been sensitized enough about the existence of the strategic plan of the bank. This hence cascades into performance contracts which the employees may not be aware whether they are aligned to the strategic plan or not.

Organization for Economic Co-operation and Development (1999) cite leadership in championing the course; existence of a strategic plan with clear organizational objectives; a conceptual framework to enable the organization to focus its measures; commitment by everyone since the degree of commitment will determine the degree of success; and involvement of all stakeholders, customers and employees' involvement individually tailored depending on size and structure of the organization as the dimension forming major components of an integrated performance measurement system whose inclusion would result in good performance contracts and eventual successful implementation. In the study, the researcher also concludes that the banks employees are rarely involved in

developing strategic plans and eventually setting targets that are in the performance contracts which is currently a preserve of the top management of the organization.

Kerretts (2008) in her study on the factors considered important in the implementation of performance contracts in Kenyan parastatals concludes that for performance contracts to be effective, there is need for a clear and transparent performance incentive system that stipulates rewards for achievement and punishment/sanction for failure to perform. She further states that performance contracts objectives should be well communicated to all employees in advance prior to signing of the performance contracts. In the same breath, the researcher of this study also found out that the employees of the bank were not fully appraised of the objectives in the performance contracts as well as there being no clear and elaborate incentive system in the bank to reward or punish performance outcome of each individual employee.

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter presents summary, conclusion and recommendations of the study in line with the purpose of the study aimed at investigating employee perception on the effectiveness of performance contracts in K-Rep bank.

### **5.2 Summary of Findings**

This study established that majority of the employees of the bank are aware of the existence of strategic plan. The study further established that the top management of the bank set the performance targets to be met when preparing the performance contract objectives while all staffs were indifferent on whether they are involved in the setting of targets of the performance contract which are in line with the strategic plan.

The findings, with respect to alignment of strategic objectives to performance contracts depicted that performance contracting acts as an effective tool for achieving the objectives of K-Rep bank, and that the overall strategic objectives to be achieved are cascaded from the top management to all staff through performance contracts. It was however established that there is uncertainty on the following parameters; performance contracts are in line with the business plan that is adopted from the corporate strategy, performance contracts have helped the bank implement its strategic plan, there is a clear link between performance contracts and the strategic plan of the bank and that the bank's capacity to achieve its strategic objectives has greatly improved with the introduction of performance contracts.

The findings on the availability of resources pointed out that there is uncertainty that K-Rep bank as directed by performance contracts allocates adequate human and financial resources to enable achieve the set strategic targets. The study further established that there is uncertainty on communication of strategic objectives and performance contract parameters. The findings indicated that there is uncertainty that measures expressed in the performance contract are well defined and easy to understand; the staffs know the importance of performance contracts in corporate strategy implementation at K-Rep.

There is also doubt that the targets set in the performance contracts are realistic and therefore achievable in the timelines set by K-Rep bank.

The findings on leadership indicated that the staffs were indifferent whether K-Rep's top management attaches much importance to performance contracts as a tool in achieving the banks strategic objectives. Finally, on performance evaluation and feedback mechanism, the findings indicated that performance evaluation in K-Rep bank is regularly done to measure actual performance against targeted results. However there was uncertainty on the effectiveness of the feedback mechanism in the administration of the performance outcomes in the bank. It further established that performance achieved is not linked to an effective reward and sanction system.

### **5.3 Conclusion**

This study concludes that K-rep bank has not sensitized all employees of the existence of a strategic plan in the bank. Only a number of employees in the bank are aware of the existence of the strategic plan. This makes it difficult for the bank to ensure all employees in the bank are pulling together towards desired goals and objectives set out in the strategic plan of the organization. In addition the employees of the bank perceive top management of the bank as having set the performance targets to be met by the staff without involving the concerned employees of the bank in agreeing on the targets that will be achievable within a given duration. This implies that these targets are imposed on the staff.

It is further noted that all employees of the bank are not sure on whether the strategic objectives are aligned to the performance contracts and on whether the strategic objectives to be achieved are cascaded from the top management to all employees through performance contracts. In addition all employees are indifferent that K-Rep bank as directed by performance contracts allocates adequate resources to enable the bank achieve the set strategic targets.

The study further concludes that the employees perceive communication on the strategic objectives and performance contract parameters to all employees in the bank as not being effective enough hence the employees are not sure whether the targets set in the

performance contracts are realistic and therefore achievable in the set timelines. Further, all staffs are indifferent as to whether K-Rep's top management attaches much importance to performance contracts as a tool in achieving the banks strategic objectives. In conclusion, employees in the bank feel that the performance evaluation and feedback mechanism is effective although performance achieved is not linked to an effective reward and sanction system.

#### **5.4 Recommendations**

From the foregoing findings and conclusions, the study recommends that there is a need for K-Rep bank to intensify awareness to all the staffs through regular meetings and training for all the employees on the existence of strategic plan. This will enhance knowledge gain on the various strategic aspects of the plan especially on performance contracting. The bank should also ensure involvement of staff in the setting of performance targets to be included in the performance contracts to ensure the targets are aligned with the strategic plan. This will ensure that performance contracts are in line with the business plans that are adopted from the corporate strategy. A clear link between performance contracts and the strategic plan of the bank would ensure that the bank improves its capability of attaining its strategic objectives.

The bank should also enhance allocation of sufficient human and financial resources to enable achievement of the set strategic targets. This will certainly enhance development of staff commitment aimed at improved productivity and attainment of the banks' strategic objectives. The bank should also enhance communication of strategic objectives and performance contract parameters to all the staff to ensure that measures in the performance contract are effectively defined and simple to understand. This will ensure that targets set in the performance contracts are realistic and attainable. Training, staff recognition, and rewards are also important in this respect to guarantee the bank effective and therefore desired performance.

#### **5.5 Suggestions for Further Research**

The current research concentrated on finding out the employees' perception on performance contracting in K-rep bank. The study involved getting responses from staffs

that had signed a performance contract and more so were in the position of a manager or officer. Despite the fact that K-rep bank is a good example of a private company that introduced performance contracts to achieve the strategic objectives in the strategic plan, the same study can be conducted in other private organizations to also determine the employees' perceptions in those organizations. This would ensure suitable comparison is made and comprehensive conclusions are arrived at.

## REFERENCES

- Aaltonen, P. and Ikavalko, H. (2001). *Implementing Strategies Successfully*. A paper presented at the XII World Productivity Congress
- Alexander, L.D. (1985). Successfully implementing Strategic Decisions. *Long Range Planning*, Vol. 18, No. 3, 91-97.
- Armstrong, M. (2003), *Human Resource Management Practice*, 8<sup>th</sup> Ed. Kogan Page London.
- Arnold, H. J. and Feldman. (1996). *Organizational Behaviour*. London: McGraw-Hill Publishing Co.
- Beer, M. & Eisenstat, R. (2000). The Silent Killers of Strategy Implementation and Learning. *Sloan Management Review*, Vol.41 No.4, pp. 29-40.
- Bennet, R. (1997). *Organizational Behaviour*. 3<sup>rd</sup> Edition, Pearson Professional Ltd.
- Blasi, G.J. (2002). Government Contracting and Performance Management in Human Resources. *International Journal of Public Administration*. 25(4), 519-538.
- Bourgeois III, L.J. & Brodwin, D.R. (1984). "Strategic Implementation: Five Approaches to an Elusive Phenomenon". *Strategic Management Journal*, Vol.5, 241-261.
- Bryson, J.M. (1995). *Strategic Planning For Non-Profit Organisations* (revised edition). Jossey-Brass.
- Cole, G.A. (1997). *Strategic Management: Theory and Practice*. Ashford Colour Press, London.
- Combs, A. & Snygg, D. (1959). *Individual Behavior*. 1<sup>st</sup> Edition, New York: Harper and Row Publishers.
- Comerfor, R.A., & Callaghan, A.W. (1985). *Strategic Management: Text, Tools and Cases for Business Policy*. Kent Publishing Co. Boston Massachusetts.
- David, F. (1989). *Strategic Management*. Columbus: Merrill Publishing Company.

- England, R. (2000). *Contracting and Performance Management in the Health Sector: A guide for Low and Middle income Countries*.
- Galbraith, J.R. & Kazanjian, R.K. (1986). *Strategy Implementation: Structure, Systems and Process*, 2<sup>nd</sup> Ed. St Paul, Minnesota, Western Publishing.
- Government of Kenya (2005a). *Sensitization on Performance Contracts in the Public Sector*. Unpublished Training Manual.
- Goold, M. (1991). Strategic Control in the Decentralized Firm; *Sloan Management Review*, Vol.32 No.2, pp. 66-81.
- Grapinet, G. (1999). *Public Sector Performance Contracting in France: A Case Study of Performance Contracting in Local Service Management*. Paris: Ministry of Finance: France.
- Hill, C. & Jones, G. (1997). *Strategic Management Theory: An Integrated Approach*. Houghton Mifflin Co, New York, 5<sup>th</sup> Ed.
- Hitachi Consulting Group. (2009). *Strategy Execution: Setting Strategy is Just the Beginning*. Hitachi Consulting.
- Irwin, R.D. (1995). <http://www.csuchico.edu/mgmt/stategy/module> 1/sld.
- Johnson, G and Scholes, K. (2004). *Exploring Corporate Strategy*. 6th Ed., Prentice Hall, NJ, USA.
- Kazmi, A. (2002). *Business Policy and Strategic Management*. 2<sup>nd</sup> Ed. Tata McGraw-Hill Co.
- Kibera, F.N & Waruingi, B.C. (1998). *Fundamentals of Marketing*. Kenya Literature Bureau, Nairobi.
- Kiboi, A.W. (2006). *Management Perception of Performance Contracting in State Corporations*. (Unpublished MBA Project). University of Nairobi, Kenya.



- Kobia, M. and Mohammed, N. (2006). *The Kenyan Experience with Performance Contracting*. African Association of Public Administration and Management, Annual Round Table Conference, Arusha-Tanzania.
- Kotler (2003). *Marketing Management*. 11<sup>th</sup> Ed. Thompson Press (I) Ltd.
- Langat, S. (2006). *Factors Necessary for the Design of Good Performance Contracts for State Corporations in Kenya*. (Unpublished MBA Project). University of Nairobi, Kenya.
- Larbi, G. (2001). Performance Contracting in Practice: Experience and Lessons from the Water Sector in Ghana. *Public Management Review* Vol. 3(3) 305-324.
- Lazer, W. and Culley, J. (1983). *Marketing Management: Foundations and Practices*. Houghton Mifflin Company, Boston.
- Machuki, V. (2005). *Challenges to Strategy Implementation at CMC Motor Group Ltd*. (Unpublished MBA Research Project). University of Nairobi, Kenya.
- Mann, A.J. (1995). *Public Enterprises Reform and the Use of Performance Contracts*. Puerto Rico.
- Michira, C.N. (2007). *Employee Perception of Change Management at K-Rep bank*. (Unpublished MBA project). University of Nairobi, Kenya.
- Mugenda, O. and Mugenda, A. (1999). *Research Methods: Quantitative and Qualitative Approaches*. Act Press.
- Nellis, J.R. (1998). *Contract Plans and Public Enterprise Performance*. World Bank
- Njuru, J (2007). *Challenges in Implementing Electronic Banking Strategy by Commercial Banks in Kenya*. (Unpublished MBA Project). University of Nairobi, Kenya.
- NRP. (1999). *Balancing measures, Best Practices in Performance management*, National Partnership for reinventing Government. Dept of Energy, USA.

- Nzuve, W.M. (1999). *Elements of Organizational Behaviour*. Nairobi University Press, Nairobi.
- Organization for Economic Co-operation and Development. (1999). *Performance Contracts in Public Enterprise: Lessons from Case Studies on Performance Contracting*. Organization for Economic Co-operation and Development. Paris, France
- Performance-Based Management Special Interest Group. (2001). *Performance Based Management Handbook: Establishing and integrated Performance Measurement System*. Performance Management Special Interest Group, U.S Department of Energy, USA.
- Pearce, J.A., & Robinson, R.B. (2007). *Strategic Management: Formulation, Implementation and Control*. 6<sup>th</sup> Ed. McGraw Hill.
- Rhodes, L., & Eiseneberger, R. (2002). Perceived Organizational Support: Review of Literature. *Journal of Applied Psychology*, Vol. 87 (4) pp 678-714.
- Shirley M. & Xu, C.L. (2000). Empirical effects of Performance Contracts: Evidence from China. *Journal of Law, Economics and Organization*, Vol.17, No.1.
- Simitu, J. (2008). *Effectiveness of Performance Contracts in Regulatory Corporations in Kenya*. (Unpublished MBA Project). University of Nairobi, Kenya.
- Thompson, J.L., & Strickland, A. (2003). *Strategic Management: Concepts and Cases*. 10<sup>th</sup> Ed, Irwin.
- World Bank. (1995). *Bureaucrats in Business: The Economics of Government Ownership*. Oxford University Press, New York.

[www.k-repbank.com](http://www.k-repbank.com)

## APPENDICES

### Appendix I: Questionnaire

This questionnaire is divided into two sections; Section A and Section B. Please complete each item under each section. The information collected is purely meant for academic research and will be treated as confidential.

#### SECTION A: General Information

1. In which department are you? (Choose one).
  - a. Operations department
  - b. Information Technology (IT) department
  - c. Credit Department.
  - d. Finance, HR, Admin and Other Department
2. Which Position are you currently holding in your department?
  - a. Manager
  - b. Officer
3. Do you know that K-Rep bank has a strategic Plan?
  - a. Yes
  - b. No

#### SECTION B: Employee Perception on the Effectiveness of Performance Contracts

In a scale of 1-5 indicate for each of the statements below the extent to which you perceive their importance by ticking where appropriate within the boxes provided.

5. *Strongly Agree*
4. *Agree*
3. *Neither Agree nor Disagree*
2. *Disagree*
1. *Strongly Disagree*

## I. Performance Contract Objectives

	<b>Strongly Agree</b>	<b>Agree</b>	<b>Neither Agree nor Disagree</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
Top management set the Performance targets to be met.					
All staff are involved in the setting of targets of the Performance contract which are in line with the strategic plan.					

## II. Alignment of Strategic Objectives to Performance Contracts

	<b>Strongly Agree</b>	<b>Agree</b>	<b>Neither Agree nor Disagree</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
There is a clear link between performance contracts and the strategic plan of the bank.					
Performance Contracts are in line with the business plan that is adopted from the corporate strategy.					
The banks capacity to achieve its strategic objectives has greatly improved with the introduction of performance contracts.					
Performance contracts have helped the bank implement its strategic plan.					
Performance contracting acts as an effective tool for achieving the objectives of the bank.					
The overall strategic objectives to be achieved are cascaded from the top management to all staff through					

performance contracts.					
Improvements are always done to enhance the effectiveness of performance contracts in achieving the banks strategic objectives.					

### III. Resources

	<b>Strongly Agree</b>	<b>Agree</b>	<b>Neither Agree nor Disagree</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
The bank as directed by performance contracts allocates adequate <b>Financial</b> resources to enable achieve the set strategic targets.					
The bank as directed by performance contracts allocates adequate <b>Human</b> resources to enable achieve the set strategic targets.					

### IV. Communication of Strategic Objectives and Performance Contract parameters.

	<b>Strongly Agree</b>	<b>Agree</b>	<b>Neither Agree nor Disagree</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
The staffs know the importance of performance contracts in implementing corporate strategy.					
Measures expressed in the performance contract are well defined and easy to understand.					
The Targets set in the Performance contracts are realistic and therefore					

achievable in the timelines set.					
----------------------------------	--	--	--	--	--

**V. Leadership**

	<b>Strongly Agree</b>	<b>Agree</b>	<b>Neither Agree nor Disagree</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
The Top management of the Bank attaches much importance to performance contracts as a tool in achieving the banks strategic objectives.					

**VI. Performance evaluation and feedback mechanism.**

	<b>Strongly Agree</b>	<b>Agree</b>	<b>Neither Agree nor Disagree</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
Performance evaluation is regularly done to measure actual performance against targeted results.					
Feedback mechanism in the administration of the Performance outcomes is very effective.					
Performance achieved is linked to an effective reward and sanction system.					

**Thank you for your participation.**

## Appendix II: Tables

**Table 1: Sampling Frame**

<b>Department</b>	<b>Staff Level</b>	<b>Population</b>
Operations	Unit Managers	53
	Officers	142
Information Technology (IT)	Unit Managers	1
	Officers	13
Credit	Unit Managers	8
	Officers	162
Finance, HR and Admin	Unit Managers	9
	Officers	19
<b>Total</b>		<b>407</b>

*Source: K-Rep Bank Ltd, HR department (2011)*

**Table 2: Sample Size**

<b>Department</b>	<b>Staff Level</b>	<b>Sample</b>
Operations	Unit Managers	5
	Officers	14
Information Technology (IT)	Unit Managers	1
	Officers	1
Credit	Unit Managers	8
	Officers	16
Finance, HR and Admin	Unit Managers	9
	Officers	2
<b>Total</b>		<b>56</b>

*Source: Researcher*