THE PERCEIVED LINK BETWEEN STRATEGIC PLANNING AND PERFORMANCE CONTRACTING IN KENYAN STATE CORPORATIONS

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DECLARATION

This research project is my original work and has never been presented in any other University or College for the award of degree or diploma or certificate.

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

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DEDICATION

To the memory of my Father the late Mr. Amir Choke

To my mother Mrs. Khadija Gode Choke

To my dear Wife Mrs. Habiba Yate Abdullahi

To my Children Khadija, Amir, Amina, and Daro

With lots of Love.

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ABSTRACT

This research sought to achieve the objective of determining the perceived link between strategic planning and performance contracting among state corporations in Kenya. To achieve this objective, the study was carried out through a survey design. A total of 32 state corporations were sampled and studied and data was collected using a semi structured questionnaire with both open ended and closed ended questions and which was administered by mail.

To determine the perceived link between strategic planning and performance contracting in the sampled state corporations, the study drew respondents from top level management. They include the Managing Directors (MDs) or Chief Executive Officers (CEOs) and any other Authority Officers of the state corporations whose positions require the signing of performance contracts. They were required to indicate how they perceive the link between strategic planning and performance contracting by scoring on statements describing such a link that were presented in a 1-5 point likert scale on the extent to which they agree or disagree with the statements. A '1' represented total disagreement while a '5' represented total agreement with the statement. The collected data was then analyzed using descriptive statistics (frequencies and percentages). To determine the perceived link, the study adopted the use of perception indices as were used by Kweyu (1998) in a similar study that involved the measurement of perception. The findings of the study were presented in tables.

The findings of the study showed that of the 24 corporations that participated in the study, 79.2% of them are fully state-owned while the rest 20.8% are partially state owned. It was further established that of those that are fully state-owned, 45.8% are for profit while 33.4% are not for profit. The study also found out that all the 24 corporations have clearly written mission statements, objectives, and strategic plans. It was established that 66.7% of the corporations develop strategic plans that cover a period of 3-5 years while 8.3% have theirs each covering more than 5 years and between 1-3 years. 91.7% of the corporations indicated successful implementation of the developed plans.

On general administrative issues, the study found out that 87.5% of the corporations advertise senior management positions and that 66.7% of the corporations have a planning department. It was also established that 91.7% of the corporations have their planning assigned to specific managers.

The above findings set the basis on which the study sought to achieve the objective of study. Regarding the perceived link between strategic planning and performance contracting, it was found out that most of the statements describing such a link had a perception index that was above 50. This indicated that in general, there exists a strong link between strategic planning and performance contracting as was perceived by most of the respondents.

The statements with perception indices above 50 include: importance attached to performance contracts; hope of achieving major objectives by signing performance contracts; performance contracting has effectively improved performance; implementation of performance contracts has been successful; Ttop managements' commitment in the implementation of performance contracts; effective communication by top managements to staffs on performance contracts; effective and adequate feedback mechanism in the administration of performance contracts; positive attitudes of staff toward strategic change in the organizations; existence of close link between performance contracting and strategic planning; alignment of performance contracting and strategic planning; improved capacity to achieve objectives; organizational members well prepared to implement performance contracts; design of performance contracts mutually done and not imposed on managers; and further improvements necessary to enhance effectiveness of performance contracts

Statements with perception indices that were below 50 include: autonomy in the performance of duties in the corporations due to the introduction of performance contracts; adequate budgetary allocations; budgetary allocation under managers' control; and varied stakeholder interests override strategic objectives and goals when designing performance contracts.

In conclusion, it is deduced that, in general, the link between strategic planning and performance contracting in the state corporation was found to be a strong one as perceived by the respondents.

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CHAPTER ONE: INTRODUCTION

1.1 Background

In the recent past a number of management theories and techniques have been developed to improve the practice of management in organizations. In most cases these theories and techniques were initially developed for and applied in private sector settings from where attempts are subsequently made to transfer them to public sector context. Such attempts meet varying degrees of success (Schwella, 1998). Organizations, whether for profit or non-profit, private or public have found it necessary in recent years to engage in strategic management in order to achieve their corporate goals. It has always been argued that principles of management models developed for the private sector should be applied to help the public sector improve their management performance.

1.1.1 Strategic Planning

Strategic management refers to the managerial process of forming a strategic vision, setting objectives, crafting a strategy, implementing and executing the strategy, and then over time initiating whatever corrective adjustments in the vision, objectives, strategy, and execution are appropriate. In crafting a strategy, management is saying, in effect, "Among all the paths and actions we could have chosen, we have decided to move in this direction, focus on these markets and customer needs, compete in this fashion, allocate our resources and energies in this ways, and rely on these particular approaches to doing business". A strategy thus entails managerial choices among alternatives and signals organizational commitment to specific markets, competitive approaches, and ways of operating (Thompson and Strickland, 2003).

Strategic management is concerned with matching the organisation to the environment in which it operates. The challenge of strategic management is in the involvement of managers in guiding the future direction of the organisation. Accordingly, management will need to consider what threats or opportunities exist, or may exist, in the future in order to position the entity appropriately. Linked closely with these is the need to understand organizations own capabilities (Bryson, 1995). According to Pearce and Robinson (1997), in order to achieve their goals and objectives, it is necessary for them to adjust to their environment.

According to Hardy (1989), profound changes are taking place in organizational life and the world of work is changing because the organizations of work are changing their ways. At the same time, however, the organizations have to adapt to a changing world of work, it's a chicken and egg situation. One thing, at least, is clear: Organisations in both private and public sectors face a tougher world - one in which they are judged more harshly than ever before on their effectiveness and in which there are fewer protective hedges behind which to shelter. Hardy believes that emerging future organisations will be smaller, more flexible and less hierarchical. He also believes that new organisation will need to treat people as assets to be developed and motivated. He also recognizes that companies will continue to face deferring circumstances and will need to respond in different manners.

Organizations are entering a new age, where familiar themes are taking on different meanings and are being expressed in a new language. What is important is not the muscle power but brainpower. New forms of organisations will treat their employees in a more responsible and humane fashion than has been the norm. Employees will be seen and treated as "partners", capable of making a substantial contribution to the growth of the organisation. The individual will receive training, be set reasonable and clear objectives and be given the autonomy to make his and her contribution to the work of the organisation. The new organizations will seek to develop, open flexible and pragmatic cultures, which help to maintain a learning environment that promotes creativity and entrepreneurship amongst all employees (Behn and Kant, 1999).

To become performance-driven, Thompson and Strickland (2003) point out that, organizations must firstly align the objectives and resources of the different parts of the organization; secondly, they must cascade objectives down into the workforce and manage workforce performance; and thirdly, they need to understand organizational and individual performance using real-time information.

An organization is made up of various business units, departments and divisions. To create organizational alignment between these entities, it is important to define the overall vision and mission, the key perspectives, the critical initiatives and the strategic objectives for each entity of the organization. It is not enough to have the right strategy. The strategic objectives of the organization need to be understood at all levels of the workforce. The cascading process gives the workforce a clear understanding of how their individual performance will be measured and evaluated. It also creates a tight linkage between organizational objectives and individual goals and activities. They should also reward individuals for performance. Linking the achievement of objectives, demonstration of competencies and cultural values and other measures of performance to an individual's compensation, whether bonuses, stock options, reward points, merit pay increases or commissions drives each person to change his or her behaviours and helps the organization achieve its strategic objectives.

Real-time information can help management see what initiatives are working, what projects are helping to achieve the strategic objectives and what strategies are producing results. Similarly, providing actionable information to individual employees is the key to helping them understand how they are performing, how they can improve and how they can help the organization achieve its objectives. And finally, optimize strategy execution using models and analytics. By using real-time feedback to frequently optimise its performance, an organization becomes more nimble, flexible and dynamic, creating true and sustainable competitive advantages.

Armstrong (2003) observes that just as a corporation's vision, values and business objectives serve to define its total reward strategy, so too should they give direction to the performance plan of each employee. In successful performance management, company goals are "cascaded" through the organization. At each level, employees set their own goals to ensure they support their managers' goals and, ultimately, contribute to the achievement of the company's top-level objectives.

Aligning goals helps to ensure that everyone in the company is working on the right things and that their efforts are relevant. In addition, each goal includes one or more measures, criteria for determining if, at the end of the performance period, the goal has been achieved. Defining clear measures upfront ensures that performance will be reliably assessed at the back end.

1.1.2 Performance Contracting

A Performance Contract is an agreement between two parties that clearly specifies their mutual performance obligations, intentions and responsibilities. It is a freely negotiated performance agreement between the government, acting as the owner of a government agency, and the agency itself up to and including other levels of management levels of the organization. Most commonly, performance contracts include bonuses for a job well done, and, less often, salary decreases for poor performance. The increased interest in performance contracts coincides with demands for greater accountability (Blasi, 2002)

A Performance Contract addresses economic, social or other tasks that an agency has to discharge for economic performance or for other desired results. It organizes and defines tasks so that management can perform them systematically, 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 and review and evaluation of periodic and terminal performance (England, 2000)

According to Directorate of Personnel Management Training Manual (2005), performance contracts should focus on two levels: For the State Corporations, the first level is between the Government and the Board of Directors. Generally, Boards of Directors and management of public enterprises bind themselves to the achievement of mutually agreed targets, in return for operating autonomy and specified rewards. The second level is between the Board of Directors and the Chief Executive: Since the Board is not in charge of routine management of the Corporation, it assigns its responsibility assumed in the contract with Government through signing of a performance contract with the Chief Executive. For the Civil Service, the first level contract is signed between the President and the Ministers. Then the contract is signed between the Head of Public Service and the permanent secretaries with the respective Ministers counter-signing.

Performance Contracts (PCs) have their origins in the general perception that the performance of the public sector in general and government agencies in particular has consistently fallen below the expectations of the public. The problems that have inhibited the performance of government agencies are largely common and have been identified as excessive controls, multiplicity of principals, frequent political interference, poor management and outright mismanagement (Larbi, 2001)

Different approaches to public sector management have been employed to address these challenges. These approaches include first, new institutional structures and arrangements for managing and delivering programs and services (privatisation, commercialisation, contracting out and decentralization to local government). Second, systematic reforms (market type mechanisms, new budgeting and planning systems, administrative modernization, decentralization of management authorities); and lastly new methods of service delivery (case management and one-stop shops) (Larbi, 2001).

While these new methods are seen as addressing weaknesses in the more traditional centralized and compliance based public management systems, they bring their own set of problems. Most notably, management systems that are disaggregated, decentralized and devolved need a new framework to guide behavior. These changes do not rely on uniform rules for the management relationship nor for ensuring accountability in the use of public resources and delivery of public services. In view of the shortcomings evident in the systems, countries have adopted the system of performance contracting as a management tool. The fundamental principle of performance contracting is the devolved management style where emphasis is management by outcome rather than management by processes. It therefore provides a framework for changing behaviors in the context of devolved management structures. Governments view performance contracting as a useful vehicle for articulating clearer definitions of objectives and supporting new management monitoring and control methods, while at the same time leaving day-to-day management to the managers themselves. Performance Contracts include a range of management instruments used within the public sector to define responsibilities and expectations between parties to achieve mutually agreed results (England, 2000; Blasi, 2002).

1.1.3 Background on State Corporations in Kenya

Since independence, the Kenya government has encouraged the growth of a “mixed" economy where private and public corporations co-exist. Nearly all post-independence state corporations in Kenya were established in realization of commitments made in the ruling party's (Kenya African National Union) manifesto and reiterated thereafter in the Government of Kenya Sessional Paper No. 10 of 1965. These commitments included the elimination of hunger, disease, ignorance and poverty, the desalinization of the economy, the promotion of development and regional balance and increase in citizen participation in the economy and greater control of the economy.

State corporations in Kenya are established with the expectation that: They would earn a surplus and also accomplish other societal objectives not necessarily financial in nature; They would establish businesses to provide goods and services deemed necessary for development. They may engage in projects with large capital outlay, which while necessary for development are unattractive to the private sector. They may provide much needed direction, support to commercial enterprises and act as the consumer's watchdog (Nyamongo, 1993).

Some of the services offered through state corporations include telecommunication, banking, and energy, agricultural, industrial, and educational among others. The role of the state corporations in the Kenyan economy is enormous. They are the channels through which various development plans are implemented. According to the 2002/2003 budgets, state corporations contributed significantly to the Gross Domestic Product. According to Economic Survey (2002), over the last ten years, fundamental changes have taken place in the Kenyan business scene. The most notable of these has been the accelerated implementation of economic reforms by the government. The intended effect of these reforms has been to establish a free market and a competitive economic system in Kenya. The economy is now liberalized and price controls are a thing of the past.

The public sector in Kenya is faced with the challenge of poor and declining performance, which in turn inhibits realization of sustainable economic growth. The problem of poor performance in the Public Service is largely attributable to excessive regulations and controls, frequent political interference, multiplicity of principals, poor management, outright mismanagement and bloated staff establishment. In addition to regressing economic growth, declining performance in the Public Service has resulted to poor service delivery, degeneration of infrastructure and a severe brain drain.

Although commendable initiatives have been implemented in the past like civil service reform, ministerial rationalisation etc, they however, lack the following important ingredients of performance improvement systems. The initiatives lacked a focus on outcome-oriented measures — measures that asked what results were achieved instead of what work was done for those results. The initiatives also had too Many Measures. With an absence of outcome-oriented performance measures, the emphasis has been placed entirely on the work that is done — the processes. Agencies often develop a litany of activity-oriented performance measures that focused on the work being done by front-line employees and not the mission-aligned results generated by the program. Those measures are often then used in decisions on funding, resource allocation and goal attainment in the absence of true outcome measures (Armstrong and Baron, 1998).

There was no coordination or common measures among similar programs. Across our government, we often have several programs performing similar activities, addressing similar issues, and thus facing similar challenges. There has been a severe lack of coordination and an absence of "common" performance measures, leaving programs with similar missions and customer bases alone in their attempts to improve performance. Instead of sharing their innovations, they idle with their frustrations.

There is usually limited linkage to Budget. The lack of outcome-oriented measures has made it difficult for budget requests to be integrated with performance data. Essentially useless measures can't be used to make management decisions, and therefore, can't be reflected in the budget. The initiatives have also had limited linkage to personnel systems. The initiatives did not create a strong link between organizational mission and the individual work of employees and managers. Rarely could one see the connection between the goals of the Chief Executive Officer and the goals of an individual employee because most employees lacked strategic-level goals and measures communicated down throughout the organization. Thus the full impact of activities and expenditures on mission-aligned program results often could not be accurately measured (Nyamongo, 1993).

Since they lack the above ingredients, the initiatives have met with only limited success. The initiatives have nevertheless established a solid foundation for results based management system. The public sector draws on funds mainly from the government and applies them to public and quasi – public investments. The public sector has since independent assumed an increasingly significant role in national development. Recent liberalization and globalisation of world economies have caused turbulence in the business environment. Hitherto protected organizations have found themselves in unfamiliar trading environments. Their operations, past inefficiencies and markets are no longer protected. They are under pressure to realign their management strategies and structures to the changes in the environment because they have realized their previous strategy and configurations may no longer serve them well.

Many authors agree that when the external environment changes, fundamental strategy and structural changes may be necessary (Chandler, 1962; Ansoff and McDonnel, 1996; Canals, 1997. It is in realization of this that the government of Kenya has introduced performance contracts in the public sector. Performance contracting is part of broader public sector reforms aimed at improving efficiency and effectiveness in the management of the public service. Governments all over the world are increasingly faced with the challenge to improve delivery of service to the public and strategic planning would be the modus operandi for the government's quest to achieve this goal.

The concept of Performance Contracting has been implemented in a number of countries both developed and developing with the sole purpose of improving public sector performance. The countries implementing the process have obtained varied results and the concept has also been refined by the implementing nations to suit their specific needs, thus producing hybrid models (Development Policy Management Bulletin, 2003).

Performance contracting should be viewed as a dynamic tool that requires ongoing attention to ensure the process and components used in the system are in line with the over-arching goals. The success of performance contracting is premised on the observance of all the conditions mentioned in the topic on basic concepts and the existence of the three sub-systems of performance information, evaluation and incentive systems (Larbi, 2001).

The Economic Recovery Strategy for Wealth and Employment Creation (2003-2007), outlines the Government's commitment to improve performance, corporate governance, and management in the Public Service through the introduction of Performance Contracts. To this end, Government has already introduced performance contracts in the management of state corporations. A pilot group of sixteen state corporations has already signed performance contracts while the remainder are expected to be on board by 1st July 2005.

As part of the overall performance management process, every Ministry/Department is required to develop a strategic plan. The strategic plan is a three-to-five year plan that clearly articulates the mission of the organization, setting out the strategic goals and objectives of the organization, the resources required to realize the identified goals and objectives, and a performance management process to drive the organization as well as monitor that the goals and objectives are being realized as planned. Once the Strategic Plan has been approved, it should then be rolled down to the lower levels within the organization as divisional or departmental work plans (Republic of Kenya: National Development Plan 2002-2008, 2001).

1.2 Statement of the Problem

Environment is key to success of any organisation, as every organisation exists to serve the environment. Any level of turbulence in the environment therefore calls for a strategic response for both survival and growth. Recent liberalisation and globalisation of the economies has resulted in unprecedented competition even in formally government-protected organisations. Coupled with withdrawal of subsidies and budgetary support, public organisations that have hitherto been prone to management inefficiencies and other institutional weaknesses are threatened with irrelevance unless they respond with new strategies and create internal capabilities to match turbulence in the environment.

It is in realization of this that the government of Kenya, through the office of the president, has underscored its strategic perspective that efficient and effective public service management was a crucial framework for achieving rapid and sustained economic growth and poverty reduction, which is the goal of its Economic Recovery Strategy (ERS) for Wealth and Employment Creation. It is on this basis that the government undertakes all Public Service Reform initiatives and programmes to ensure the achievement of the ERS for WEC (2003/07).

The transformation of the Public Service **from** process oriented, process and entitlements, control, unnecessary bureaucratic practices, inward considerations and being risk averse **to** targeted results, delegation, enabling and empowering speedy delivery of services/service charters, citizen/client focused service and risk management, reiterates the government's commitment to the achievement of the strategy and attainment of Millenium Development Goals. The development of the Public Sector Reform Strategy, whose validation and implementation took effect from July 2005, forms the basis of the introduction of performance contracts in the public sector. This is meant to hold agencies accountable for achieving results consistent with statutory mission that is consistently conveyed to the rest of the organisation. The idea is to create outcome–oriented performance measures that tie into long-term strategic plans to guide agency and program activities.

As articulated in the paper presented during the Kenya Consultative Meeting in April 2005 by the Minister of State for Public Service Office of the President, the development and implementation of performance contracts for Permanent Secretaries/ Authorised Officers and Chief Executives of State Corporations is among other Public Service Management Reforms. The performance contracts will tie an organization or individual to undertaking specified tasks at predetermined levels of performance within a given period of time. The contract explicitly states who the government's agent is (the Ministry(ies); the state-owned corporation management (Board of Directors, Managing Director, and the Management Team); the vision, mission, and objectives hence strategic plan for the corporation; performance targets; performance indicators; and the obligation of each party to the contract.

The contents of the contract imply that there should be a very strong link between strategic planning and performance contracting. This is in line with Murphy (2004)'s assertion that among other things, 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 assessments, thus motivating improved employee performance; development and maximization of the unique skills and capabilities of this talented workforce; and provision of a systematic framework to integrate pay, performance, and reward systems.

Whereas performance measures ought to be developed in conjunction with strategic goals and act as a driving force behind resource allocation and tracking of output production, there could be possibilities of misalignment. CEOs ought to sign the performance contracts based on their understanding of what is reflected in the strategic plans because the plans form the basis of the performance targets to be met. Perceiving the contracts as something imposed on them and not as something they ought to participate in developing and believe can be achieved could breed fears in them if end results are not as stipulated in the contracts. The extent to which the performance contracts reflect what is captured in the strategic plans and the extent to which the CEOs believe in them is what this study sets to investigate.

Whereas strategic management process has been widely researched by management scholars in Kenya (Aosa, 1992; Kombo, 1993; Kongoro, 1998; Gekonge, 1999; Bwibo, 2000; Awino, 2001; Warsame, 2002; Koske, 2003; Muthuiya, 2004; Michael, 2004; Waruhui, 2004; Karanja, 2004; Ongaro, 2004; Nyaberi, 2004; Nga'ng'a; 2004), only a few studies (Koske, 2003; Aosa, 1992; Karanja, 2004; Ongaro, 2004; Nyaberi, 2004; Nga'ng'a; 2004) have studied on strategic planning practices in Kenyan Public Corporations. However, these studies have laid their focus on aspects of strategic management other than determining the perceived link between strategic planning and performance contracting, yet such a link should form the premise on which successful design and eventual implementation of strategic plans and performance contracts in state corporations are based. Such a link also thought of having a crucial role in strategic management process of these corporations. This study takes a significant shift to investigate into the perceived link between strategic planning and performance contracting by the management in the state corporations in Kenya.

1.3 Objective of the Study

The objective of this study is to determine the perceived link between strategic planning and performance contracting among state corporations in Kenya.

1.4 Importance of the Study

a) The study will highlight the role of performance contract as a means for improving performance by highlighting strategy critical aspects of their development.

b) The study will benefit the management and staffs of the selected organisations by making them appreciate performance contracting and how it can enable them refocus their energies towards infiltrating the concept in their strategic planning and performance measurement indicators.

c) The study will contribute towards a framework for further research and fill existing gaps in the field of management of strategic change amongst public organisations in Kenya.

d) The study may be important to future scholars and researchers who may use it as a source of reference.

CHAPTER TWO: LITERATURE REVIEW

2.1 The Concept of Strategy

Strategy is a multi-dimensional concept and various authors have defined strategy in different ways. Hofer (1978) defines strategy as the match between an organization's resources and skills and the environmental opportunities and risks it faces and the purpose it wishes to accomplish while Chandler (1962), in strategy and structure, calls strategy "... the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and allocation of resources necessary for carrying out these goals". According to Schendel and Hofer (1979), strategy is meant to provide guidance and direction for activities of the organization, since strategic decisions influence the way organizations respond to their environment, the purpose of strategy is to provide directional cues to the organization that permit it to achieve its objectives while responding to the opportunities and threats in the environment.

The concept of strategy is the firm's business and the common thread, which is arrived at through the use of product-market scope. It is the pattern of major objectives, purposes, or goals and essential policies and plans for achieving those goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be. Strategy is a unified and integrated plan that relates the strategic advantages of the firm to the challenges of the environment and that is designed to ensure that the basic objectives of the enterprise are achieved through proper execution by the organization (Ansoff,1965; Andrews ,1971; Jauch and Glueck,1984). Mintzberg (1994) defines strategy as a pattern in a stream of decisions and actions. He defines strategy as a plan, ploy, pattern, position, and perspective. 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 and to fulfil stakeholders' expectations Johnson and Scholes (2002).

By the concept of strategy, we mean its content and substance. Hax and Majluf (1996) have presented strategy as a multidimensional concept that embraces all the critical activities of the firm, providing it with a sense of unity, direction, and purposes, as well as facilitating the necessary changes induced by its environment. They provide a unified definition of the concept of strategy as: a means of establishing the organizational purpose in terms of its long-term objectives, action programs, and resource allocation; a definition of the competitive domain of the firm; a response to external opportunities and threats, and internal strengths and weaknesses, in order to achieve a sustainable competitive advantage; a way to define managerial tasks with corporate, business, and functional perspectives; a coherent, unifying, and integrative pattern of decisions; a definition of the economic and noneconomic contribution the firm intends to make to its stakeholders; an expression of strategic intent: stretching the organization; a means to develop the core competencies of the organization; and as a means of investing in tangible and intangible resources to develop the capabilities that assure a sustainable advantage.

According to Stoner (1995), strategy is defined as the broad program for defining and achieving an organization's objectives. Therefore, strategic management can be defined as the management process that involves an organization's engaging in strategic planning and then acting on those plans

2.2 Strategic planning

Strategic planning in organizations originated in the 1950s and was very popular and widespread between mid-1960s to mid-1970s, when then people believed it was the answer to all their problems, and corporate America was "obsessed" with strategic planning. Following that "boom", strategic planning was cast aside and abandoned for over a decade. The 1990s brought the revival of strategic planning as a "process with particular benefits in particular contexts" (Mintzberg,1994). The history of strategic planning begins in the military. According to Webster's *New World Dictionary*, strategy is "the science of planning and directing large-scale military operations, of manoeuvring forces into the most advantageous position prior to actual engagement with the enemy" (Guralnic, 1986).

Strategic planning is a way to identify and move toward desired future states. It is the process of developing and implementing plans to reach goals and objectives. Thus, strategic planning aims to exploit the new and different opportunities of tomorrow, in contrast to long-range planning, which tries to optimize for tomorrow the trends of today (Drucker, 1980).

Although our understanding of strategy as applied in management has been transformed, one element remains key: the aim is to achieve competitive advantage. Within business it is used to provide overall direction to a company (called strategic management) in financial strategies, in human resource/organizational development strategies, in information technology deployments, and to create marketing strategies, to name just a few applications. A good strategy will be capable of obtaining the desired objective; a good fit between the external environment and an organizations resources and core competences. It must be feasible and appropriate; capable of providing the organization with a sustainable competitive advantage. It should be unique and sustainable, dynamic, flexible, and able to adapt to changing situations, and sufficient on its own i.e.: valuable without cross-subsidization (Bowman and Asch ,1987).

Strategic planning means to "make beneficial, strategic changes to adapt to the rapidly shifting environment" (Rowley, Lujan, & Dolence, 1997). Strategic planning is embedded in strategic management which is the process of specifying an organization's objectives, developing policies and plans to achieve these objectives, and allocating resources so as to implement the plans (Bryson, 1995). According to Wheelen and Hunger (1995), strategic management is a set of managerial decisions and actions that determines the long-run performance of a corporation and includes environmental scanning, strategy formulation, strategy implementation, and evaluation and control. Strategic management is defined as the art and science of formulating, implementing and evaluating cross-functional decisions that enable an organization achieve its objective (Gakuru, 1997).

As this definition implies, strategic management focuses on integrating management, marketing, finance, accounting, production, operations, research and development, human resources and information systems aspects of an organization or business to achieve success. It is the highest level of managerial activity, usually performed by the company's Chief Executive Officer (CEO) and executive team. It provides overall direction to the whole enterprise. An organization's strategy must be appropriate for its resources, circumstances, and objectives. The process involves matching the companies' strategic advantages to the business environment the organization faces.

One objective of an overall corporate strategy is to put the organization into a position to carry out its mission effectively and efficiently. A good corporate strategy should integrate an organization's goals, policies, and action sequences (tactics) into a cohesive whole.

In the context of public sector, the government bureaucracy in Kenya at all levels-central, local, and state corporations, is the single most important instrument in the formulation and implementation of policies that affect the citizen. Within the public service, the office of the president is far and away the most important locus of decision-making across all sectors of national life. The extent to which this system is made accountable to the voter and taxpayer has historically been minimal.

When Kenya attained her Independence in 1963, like many other emerging independent nations in the 1950s and 1960s, the Government took upon itself the task of providing basic needs and services in response to the needs and aspirations of its citizens. Consequently, apart from its traditional role of maintenance of law and order, the Public Service was given the following other responsibilities: Coordination of national development;. promotion of economic growth and development especially among the Africans; and managing industrial and commercial concerns where government had an interest (Government of Kenya, 2005).

Overall, strategic planning in public corporations has been only moderately successful, as only few have been able to achieve significantly successful results and "transformed themselves dramatically. Others have been able to make important changes in parts of their operations. But many institutions have stumbled, dissolved into controversy, or lost their nerve" (Rowley, Lujan, & Dolence, 1997).

Consequently, in the recent past as part of its strategic planning, the government of Kenya, through the office of the president, has developed a Public Sector Reform Strategy, which constitutes performance contracting as a means of achieving efficiency in service delivery.

2.3 Performance Contracting

In the context of this study, performance contracting is process of drafting a written or negotiated agreement between government or its representative agency and the management of public enterprise and other public organizations directly delivering public services or between government and private managers of state assets wherein quantifiable targets are explicitly specified for a given period and performance is measured against targets at the end of the period (World Bank, 1995).

Aucoin and Heintzman (2000) in Larbi (2001) note that one of the key planks of the new public management 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 or performance agreements are central to this trend and have become one of the tools for enhancing performance and accountability in the public sector. They are part of the efforts of governments to respond to 'demands for results and for demonstrated performance in respect to results' by managing and reporting on outputs and outcomes, and accounting for the connection between outputs and outcomes

According to Scott (1989), changes will have a major impact on amongst other things employees reward systems. Employers and employees will increasingly come to look for new and more appropriate ways of rewarding and being rewarded. Indeed with the advent of performance – related pay, in both the private and public sectors, there is already a gradual change from determining pay on the basis of a person's position and seniority to basing it on their contribution to the organisation. These changes are being driven by four main concerns. The first is cost. The concern is that the present system is too expensive for companies that must conserve resources to be competitive. The second is equity. Organisations are concerned to ensure that employees are fairly rewarded for their efforts. The third is productivity. Organisations want to adopt reward systems that motivate high performance from employees. The fourth and last is entrepreneurial pressure. Companies are aware that the present system doesn't always adequately reward entrepreneurs for their efforts.

These concerns are being approached through the application of three different though not necessarily mutually exclusive payment methods. The first is profit sharing, whereby the pay of an employee is pegged to a company's performance. This means that salaries are not fixed but instead are related by the use a predetermined formula, to the profit of the organisation over a given period of time, usually the previous financial year. The second method is the use of individual performance bonuses, which are paid on top of basic salaries and are related to a predetermined performance target. This method has the advantage of enabling individuals to establish a direct correlation between their personal efforts and bonus payment they receive. The sums involved are - sometimes as much as twice basic salary. The last is the venture returns method, which represents perhaps the most radical break with the past. This is a scheme where entrepreneurs and inventors within an organisation are given the opportunities to earn returns based on performance, in the market place, of the particular products or services for which they are responsible. Through this mechanism, the entrepreneur or inventor remains within the corporate fold but is paid on a similar basis to the owner of a small, independent business. The advantage is that they get the personal satisfaction and the reward of running their "own" business, whilst the larger organisation benefits from having highly motivated and innovative people in charge of part of it operations.

The picture created by new reward systems is not, of course, totally rosy. Where there are winners, there may also be losers; not everyone will have the opportunity or drive to be an entrepreneur, nor or will be in a position that lends itself to some form of bonus system. Also many people who currently benefit from reward systems based on seniority and position may find they lose out. Older workers established in organisations and well down their chosen career path, could be particularly adversely affected by such changes. In addition, such payments systems may be divisive and create conflict.

Scott stresses the need for teamwork, yet a situation where some members of the team are receiving high bonuses is bound to create tensions, which undermine co-operation and collaboration. It may be that profit – sharing schemes, which encompass everyone in the organisation, overcome this threat to team working, but if everyone receives the same share of the profits irrespective of their individual contribution, the motivation effect is likely to be diminished. The result of these various approaches to pay could be minimal in terms of motivation, or could even be demotivating and indeed drive out the most experienced people in the organisation.

2.4 The Need for Performance Contracts

The improvement in the wealth of nations is premised on the realization that comparative advantage depends on resource efficiency/endowment; competitive advantage of nations depends on public sector performance and public sector performance acts as a ceiling on private sector performance (Market failure vs. Government failure) (Porter, 1980).

Ring and Perry (1985) argue that whereas the private organization has entrepreneurial roots, public corporations are created by some higher controlling authority. This authority is usually composed of multiple and competing interests. Once the public corporation has been created, its mission and objectives are still defined by the controlling authority on which it is also dependent for its resources. Hatten (1982) points out that it is difficult for public sector managers to state the overall mission and objectives of their corporations as they are not so all-encompassing and measurable as increased profits, sales or market share. This view is also supported by Rainey et al (1976) where they mention the complexity of objectives for the public organization in terms of its greater multiplicity and diversity.

Regarding decision-making in public sector settings, Rider (1987) emphasizes that decision-making is a political process. In such a situation, decisions are typically not purely rational but rather Incremental and adaptive and predetermined by interactions of political influence and sudden changes in the environment. He further argues that strategic planning has to be accomplished in a pluralistic environment where power is distributed among many and varied interest groups.

Despite the fact that public corporations are created to ensure effective and efficient delivery of essential services, majority have been mismanaged and some have resulted to closure like the Kenya Meat Commission, the Nyayo Bus Corporation, among others. In an article by Gakuru in the Standard Newspaper of July 8, 2003, he stated, "The solution to the problems afflicting our nation and the proper running of government is by improving efficiency as defined by the private sector." According to him, the government has reached to the private sector to acquire the "best and brightest" that the sector has to offer to fix the numerous government failures. This has not begun with the Narc government and it is by no means confined to Kenya. Other developing nations are doing the same especially due to pressure from the World Bank, International Monetary Fund (IMF), the European Union and other bilateral and multilateral donors.

Effective strategic management is a process of creating a productive, more profitable alliance between the nature and demands of the business environment/ the organization's culture and resource base at its disposal, the way it utilizes them and the skills it uses in utilizing them. The challenge for public corporations therefore, lies in achieving this strategic fit because the business environment has become dynamic, turbulent and unpredictable. Public corporations have been criticized for inefficiencies and mismanagement. They are said to contribute to many of the problems hindering economic growth such as public sector deficits, domestic and foreign borrowing and misallocation of resources. They are characterized by widespread misuse of funds due to lack of proper internal management and control.

Some of these criticisms are supported by studies carried out (Aharoni, 1986; Berg, 1981 Jones and Moran, 1982; Nellis, 1986; Shirley, 1983). Specific problems associated with public corporations include: poor economic performance, overstaffing, overvalued assets, high debt ratios causing constant drain on the national treasury and non responsive top management who are unable to take advantage of changing domestic and international commercial opportunities. Portions of the public sector have either been privatized or commercialized A few studies have been carried out to document strategic planning practices in Kenya (Shumbusho, 1983; Aosa, 1992; Karemu, 1993;Shimba, 1993).

The widely accepted rationale for performance contracting is that public agencies have multiple objectives and multiple principals. These fuzzy objectives lead to poor financial performance in most cases. One view is that because public agencies are required to carry several functions they are unable to do any one of them very well. The other is that while a government agency may have done very well in achieving many of its objectives, its performance may be judged with reference to one objective to which it has not done well. A performance contract is a tool of remedying the situation of multiple objectives by agreeing the preferred objectives, which the owner would like achieved. It addresses the multiplicity of principals by requiring one agency to sign on behalf of all of them (Kaufmann, 2002).

The multiple principals that government agencies must deal with in fulfilling their mandates emanate from Parliament, Ministry of Finance, Ministry of Planning and National Development, Parent Ministry and the Office of the President. In addition to creating fuzzy objectives, having multiple principals results in a 'denial' syndrome in the event that things are not working as expected and no one wants to take responsibility for the failure.

Several government agencies may have to pursue certain social goals and such pursuit may affect the financial results of the operations of the agency. Therefore, a prior understanding of the extent to which financial results can be traded off against social objectives to be achieved by the agency through a performance contract helps to clarify the objectives of the agency. Several government agencies, on the basis of current operations, could be recording losses but such results alone would not indicate the effort put in place and the success achieved by management of the agency in improving their operations. If a performance target by an agency for the year were to reduce loss from the level of previous years, the achievement of such a target would win public support, boost the morale of the current management and spur the agency on to better performance Shirley and Xu (1997).

The objective of the performance contracting policy is to simultaneously increase autonomy along with transparency and accountability. Unlike conventional privatisation where public assets are transferred from public ownership to private ownership, the performance contract seeks to privatise the public sector style of management through what may be regarded as a movement away from "control by procedures" to "control by results". Government surveillance mechanisms accordingly focus on the outcome of management processes and not on the processes themselves (EAC, 2004).

The positive impact of Performance Contracts is now widely recognized for it is based on the following premise: - What Gets Measured Gets Done; If You Don't Measure Results, You Can't Tell Success From Failure; If You Can't See Success, You Can't Reward It; If You Can't Reward Success, You are Probably Rewarding Failure; If You Can't See Success, You Can't Learn From It; If You Can't Recognize Failure, You Can't Correct It; If You Can Demonstrate Results, You Can Win Public Support (Thompson and Strickland, 2003)

2.5 Types of Performance Contracts

Christensen and Yoshimi (2003) point out that there are mainly three types of Performance Contracts namely the French System, the Signalling System and Results Based Management. The French based system of Performance Contract does not allocate weights to targets. There is therefore no distinction between targets in terms of emphasis (by weighing them differently) and as such performance evaluation is affected by a high degree of subjectivity. This system is practiced in France, the United Kingdom, Senegal, China, Ivory Coast and Benin.

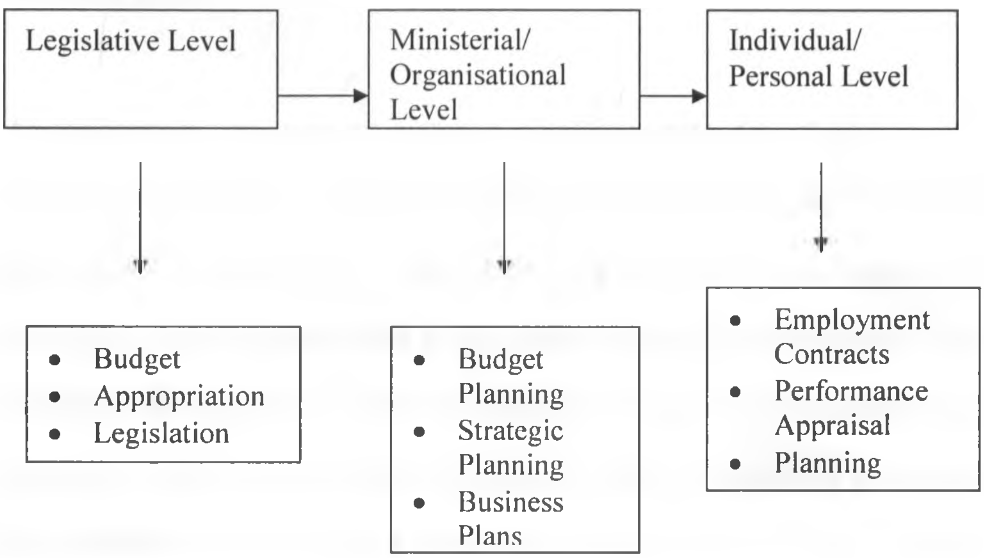
The Signalling System is based on the principle that given the capital stock at hand, how efficiently can the management use it. The system aims at motivating management to maximise return on the sunk capital. A primary criterion of evaluation is therefore evolved which reflects the improvement in real productivity, which in turn leads to an increase in socially relevant profits (as opposed to privately relevant profit). A PC is signed at the beginning of the year in which management is committed to improvement in real profitability. The Signalling System is based on the premise that public enterprise management should be appropriately guided to aim at improving real productivity and its efforts should be acknowledged and rewarded by an incentive system. The Signalling System is practised in Pakistan, Korea, Philippines, India, Bolivia and Gambia.

Performance management is a systematic process of planning work and setting expectations, continually monitoring the performance, developing the capacity to perform and periodically rating performance. Results based management is one type of performance management process. The concept involves formulation of outcomes and goals, selection of outcome indicators, setting of specific targets to reach and dates for reaching them, assessment of whether the targets have been met and analyses and reporting of results.

The concept of results based management emphasizes the need for key internal and external stakeholders to be consulted and engaged in setting outcomes, indicators and targets. Whereas performance contracts focus on outcome and results, result based management is a system that is used by government agencies to achieve specified targets by focussing on inputs, processes and outcomes. Results based management is therefore a system that is used to mobilize the entire staff in an organization in achieving the agreed targets (Dessler, 2003).

2.6 Strategic Plan and Performance Contracting

To ensure success in implementation and sustainability of the process of performance contracting, it is important to link it with other management systems. Lack of integration between management systems is a key shortcoming of existing systems, with organizations missing out on potential benefits of performance contracting by better linking resource allocations to results. Examples of different potential linkages between performance contracting and other management systems are provided in the diagram below:

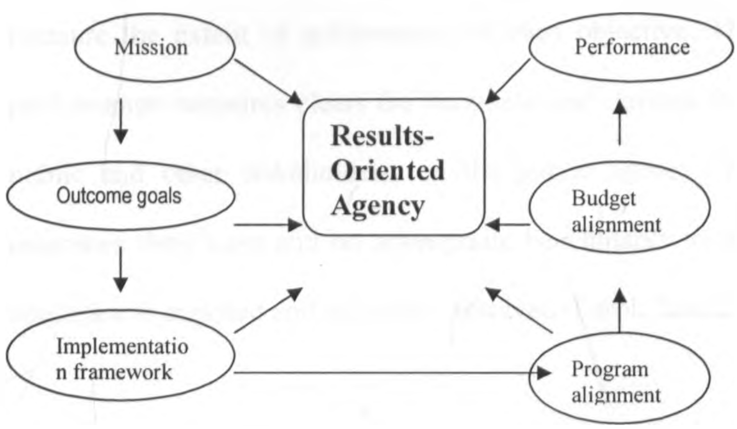


A performance-contracting regime is therefore not a substitute for overall performance management. It is merely one element of a performance management framework, which in turn is part of an overall resource allocation system. Performance management is a strategic tool to improve individual and organizational effectiveness in meeting the mission and desired outcomes. Performance management systems help facilitate organizational change and/or maintain continuity, when performance expectations for individuals and groups are clearly communicated and understood (Armstrong and Baron, 1998).

The Kenyan government has always sought ways to improve its efficiency and effectiveness. The quest for government efficiency is demonstrated by a shift from focusing on the processes and resources used to perform work, to the results and outcomes of those efforts. There is increased emphasis on collaboration with stakeholders, accountability and openness in communicating progress toward achieving goals.

A performance management program should capture the objectives of result achievement, customer satisfaction, employee motivation and satisfaction. Such a programme will among other things establish accountability and align performance expectations with organizational goals; enable tracking of organizational goals, and facilitate their achievement; focus on results, rather than subjective assessments, thus motivating improved employee performance; develop and maximize the unique skills and capabilities of this talented workforce; and provide a systematic framework to integrate pay, performance, and rewards systems (Murphy, 2004).

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 strategic thrusts need to be aligned with resource allocation in the implementation framework, all geared toward efficiency, effectiveness and sustainable improved performance.



Source: Murphy, R. (2004); Human Capital Magazine.

A performance contract is a management tool that ensures correlation between planning and implementation, coordination between various government agencies, an enabling public policy environment for other downstream reforms and a fair and accurate impression about public enterprise performance. On the basis of this correlation, the strategic plans developed by the various corporations provide the impetus on the formulation of performance contracts. The performance targets, indicators, obligations, and measurements are all drawn from the strategic plans implying that there should be a very close link between the two.

The need for Performance Contracts emanates from the realization that public agencies are not clear about their goals or aim at the wrong goals resulting in poor or declining performance. This lack of clarity can be attributed to, as earlier noted, the fact that most public agencies report to multiple principals who have, multiple and often, conflicting objectives. This in many cases results in fuzziness in the agencies perception of what is expected of them. Performance Contracts clarify the goals and objectives of public agencies, including their obligations and responsibilities, and measure the extent of achievement of each objective. The simple act of defining performance measures clears the fuzziness and clarifies the expectations of both the public and other stakeholders, on the public agency. When they decide on the outcomes they want and on appropriate benchmarks to measure the outcomes, the confusion is exposed and ultimately resolved (Larbi, 2001).

The cornerstone for designing a performance contract is the strategic plan of the public agency. This is because the strategic plan defines the agency's current situation, where the agency intends to go, how it will get there, when it will get there, what needs to be done and by who, and how this will be reviewed. The backbone of performance contracts is performance indicators, which are derived from the mission and objectives of the agency, as contained in the Strategic Plan.

2.7 Challenges Facing Public Sector Organisations

Though well intentioned, the use of parastatals has been recognised as the major cause of decline in the public sector. The World Bank describes them as inefficient with institutional weaknesses that hamper growth. The Bank concludes that their use has led to unsuccessful policies including contributing to the deteriorating physical environment. These views are borne out by Kangoro (1998). She found out that there was negative government political influence resulting in poor developed strategies leading to poor performance. Kimenyi (2002) concluded that major institutional changes resulting from reforms required sufficient capacity to implement change that was grossly lacking within government institutions.

Pressure to address the above weaknesses has mounted on the Kenyan government from International Monetary Fund (IMF), World Bank, a changed world political environment and globalisation. As a consequence there has been a paradigm shift by the government towards one that recognises market mechanism and private enterprise as more efficient in generating the economic dynamism that leads to growth. The role of government is therefore transforming towards providing an enabling policy environment and maintaining essential infrastructure.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

The study was conducted through a survey design whose aim was to establish management perception of performance contracting in the state-owned corporations and determine the perceived link between performance contracting and strategic planning in these corporations. Karanja (2004) successfully used this design in a similar study.

3.2 Population of Study

The population of interest in this study consisted of all the state-owned corporations obtainable from the Inspectorate of State Corporations – Office of the President (Appendix II). These corporations are established under the various ministries and/or government departments and they draw their mandate from respective Acts of Parliament that created them. The ministries under which they operate act as government agents when signing performance contracts.

3.3 Sample Design

The sampling frame was obtained from the list of state corporations available at the Inspectorate of State Corporations where they are listed. The study used a sample of thirty-two corporations selected through stratified sampling technique. The sample consisted of the sixteen pilot corporations that signed performance contracts by end of 2004 plus sixteen others which were to sign by 1st July 2005. The basis of stratification was the degree of state-ownership i.e. those that are fully state-owned and those that are partially state-owned.

3.4 Data Collection Method

The study used primary data that was collected by way of a structured questionnaire consisting of closed-ended questions. The questionnaire was divided into three parts. Part A solicited data on the bio data of the organization and the respondent(s); Part B solicited data on strategic planning in the organization; and Part C covered information on managements' perception of performance contracting and its link to strategic plan. The questionnaire was administered by way of mail questionnaire 'drop and pick'. The respondents of the study were the Managing Directors (MDs) or Chief Executive Officers (CEOs) and any other Authority Officers of the state-owned corporations whose positions require the signing of performance contracts.

3.5 Data Analysis

Data obtained was analysed using descriptive statistics. Percentages were used to summarize and reflect the relative weight of perceptual inclinations of the respondents towards performance contracting and its link with the strategic plan. They were used to determine the status proportion of different respondents. The frequency distributions were used to examine the pattern of responses to each of the perceptual statements. To be able to obtain the percentages and frequencies, the edited data was coded, labelled and then input into the statistical package for social sciences (SPSS), which was then run to generate the values for interpretation. The analyzed data was then presented in tables.

CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSIONS

The study was designed with the sole objective of determining the perceived link between strategic planning and performance contracting in state corporations in Kenya. To achieve this objective, respondents who participated in the study in the provision of data that was analyzed were drawn from the top management level in these corporations. The study specifically targeted respondents (CEOs/MDs, and senior authority officers) who had signed performance contracts and are also charged with the responsibility of administering them. Out of the sampled thirty-two corporations, all of which were served with the questionnaires, only twenty-four responded by returning filled questionnaires. This formed 75% response rate, which the study considers suitable for analysis. Others either declined to receive questionnaires citing various reasons while others received but never responded.

To achieve the study objective, the respondents were required to respond to general strategic planning and administrative issues in their organizations. They were then presented with statements describing the link between strategic planning and performance contracting on which they were required to indicate the extent to which they perceived the link by agreeing or disagreeing with each of the statements, as applicable in their respective organizations, by scoring on a likert scale of 1 to 5. This served to indicate their perceptual inclinations with regard to strategic planning and performance contracting in the respective state corporations.

4.2 General Strategic Planning Issues

To lay ground for the focus of the study, the study set forth to seek information on the strategic planning and administrative issues in these corporations. It was felt that these issues are of paramount importance for both long-term and short-term (day-to-day) operations in these organizations, which eventually determine their success or failure. The issues that the research looked into were the organizations' orientation (profit or not- for-profit), ownership structure, presence or otherwise of mission statements, objectives, and strategic plans, the advertisement or otherwise of the senior positions to the general public, presence or otherwise of the strategic plans and the periods which they cover, and the spelling out of duties and responsibilities of senior managers among others.

4.2.1 Ownership Structure and Orientation of the State Corporations

These issues relate to shareholding in the corporations and the reason for their existence and/or establishment. The study viewed these issues as crucial in the determination of strategic direction, corporate governance practices, and overall objectives of the corporations. It was established that of the 24 corporations that were studied, 20.8% are partially state owned while the rest 79.2% are fully state owned. On the other hand, of the 20.8% that are partially owned, only 4.2% of them are for-profit while 16.6% are not for profit. Further, out of the 79.2% that are fully state owned, 45.8% are for profit while 33.4% are not for profit. The cross tabulated research findings are shown in Table 1a. below.

Table 1a: Ownership-Orientation Cross Tabulation

Orientation

Ownership	For profit	Not for profit	Total
Fully state owned	11	8	19
Partially state owned	1	4	5
Total	12	12	24

Source: Research Data.

From the literature review, the state corporations are established with the expectation that they would earn a surplus and also accomplish other societal objectives not necessarily financial in nature. They would establish businesses to provide goods and services deemed necessary for development. They may engage in projects with large capital outlay, which while necessary for development are unattractive to the private sector (Nyamongo, 1993). The results of the study indicate that 50% of state corporations are for profit while the other 50% are not. This implies that the state corporations engage in diverse activities, whether for profit or not with the ultimate goal of accomplishing the objective for which they were established.

The profit orientation was majorly seen to be hinged on the need for sustainability. Those that are not for profit deliver services to the public through the government ex-chequer. It was the expectation of this study that corporations with partial state ownership would be the only ones to be profit oriented. But the findings of the study indicate that even some of those with full state ownership are profit oriented. Profit and efficient service delivery are some of the criteria on which the signing of performance contracts is based.

4.2.2 Presence of Mission Statement, Objectives and Strategic Plans

A mission statement is a broadly framed but enduring statement of a firm's intent. It embodies the business philosophy of the firm's strategic decision makers, implies the image the firm seeks to project, reflects the firm's self-concept, and indicates the firm's principal product/service areas and the primary customer needs the firm will attempt to satisfy. It was the intention of this study to establish presence of mission statements in the state corporations because one of the outcomes that a mission statement sets to accomplish is to specify organizational purposes and the translation of the purposes into goals in such a way that cost, time, and performance parameters can be assessed and controlled.

Objectives are organization's performance targets- the results and outcomes it wants to achieve. They represent a managerial commitment to achieving specific performance targets within a specific time frame- they are a call for results that connect directly to the organization's strategic vision and core values. The study found it necessary to look into their explicit presence in the state corporations because they function as yard sticks for tracking an organization's performance and progress, issues that are essential when designing and administering performance contracts.

A strategic plan is the product of formal strategic planning process. It is a formal document that shows an organization's strategic orientation- its vision and mission, strategic thrusts, goals and objectives to be achieved over a specified time period. It also defines the firm's operating environment, product/service scope, and the primary customers' needs the organization satisfies. The performance measures, indicators, and parameters are derived from the strategic plans, things that take centre stage in the development and administration of performance contracts.

The findings of the study revealed that all (100%) the studied corporations have mission statements and objectives that are explicitly spelt out and strategic plans as shown in Table 1b below.

Table 1b: Mission Statement, Objectives and Strategic Plans

		Frequency	Percent	Valid Percent	Cumulative Percent
Mission statement	Yes	24	100.0	100.0	100.0
	No	0	0.0	0.0	0.0
Written statement	Yes	24	100.0	100.0	100.0
	No	0	0.0	0.0	0.0
Objectives	Yes	24	100.0	100.0	100.0
	No	0	0.0	0.0	0.0
Written objectives	Yes	24	100.0	100.0	100.0
	No	0	0.0	0.0	0.0
Strategic plans	Yes	24	100.0	100.0	100.0
	No	0	0.0	0.0	0.0

Source: Research Data.

The awareness and the understanding of organizational objectives by all members of the organization place that organization in a better position to achieve them. The study considered this requirement as important because the signing of performance contracts is cascaded down the organizational hierarchy and on presumption that every organizational member is aware of what is required of him/her. However, the study found out that even if the objectives are explicitly spelt out, not all organizational members are aware of **all** of these objectives in some corporations (20.8% of the studied corporations) as shown in Table 1c below. To become performance-driven, Thompson and Strickland (2003) point out that, organizations must firstly align the objectives and resources of the different parts of the organization; secondly, they must cascade objectives down into the workforce and manage workforce performance; and thirdly, they need to understand organizational and individual performance using real-time information. The findings reveal to us that such organizational members may not be aware of their full contribution to the achievement of the overall organizational goals.

Table 1c: Awareness of Objectives

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	19	79.2	79.2	79.2
No	5	20.8	20.8	100.0
Total	24	100.0	100.0	

Source: Research Data.

Over and above the existence of strategic plans, the study established that there exist other plans: operational and financial plans that are drafted to guide day-to-day running of the organizations and the associated financial implications in terms of costs and revenues (budgets). However, the study never sought these plans' intricate ingredients but it was keen on the time period for which the plans (strategic plans inclusive) were prepared to serve and whether they are fully translated into action once they are developed. The findings are presented in Tables 1d and 1f below.

Table 1d: Plan time periods

	Frequency	Percent	Valid Percent	Cumulative Percent
0-1yr	3	12.5	13.0	13.0
1-3 yrs	2	8.3	8.7	21.7
3-5 yrs	16	66.7	69.6	91.3
Over 5 yrs	2	8.3	8.7	100.0
Total	23	95.8	100.0	
Missing System	1	4.2		
Total	24	100.0		

Source: Research Data.

The results above show most corporations' plans run for a period of 3-5 years. 20.8% of the corporations have plans running for a period of less than a year to three years while a few (8.3%) have plans whose time span is over five years. Implication of these time spans is that the various objectives and goals that are set hinge on them, which in turn reflect specifications and requirements in the performance contracts. On whether the plans are fully implemented once they are developed, 91.7% of the corporations said Yes and only one (4.2%) said No while the other one was reluctant to reveal as shown in the Table 1f below.

Table 1f: Implementation of plans

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	22	91.7	95.7	95.7
No	1	4.2	4.3	100.0
Total	23	95.8	100.0	
Missing System	1	4.2		
Total	24	100.0		

Source: Research Data.

4.3 General Administrative Issues

Blasi (2002) notes that performance contracts include a range of management instruments used within the public sector to define responsibilities and expectations between parties to achieve mutually agreed results. With this perspective in mind, the study set forth to investigate whether the senior positions in the state owned corporations are advertised to the general public (where the job description is fully detailed), whether the job descriptions reflect current functions and responsibilities; whether there exists a planning department, and if it does, whether there are clearly assigned responsibilities for planning.

Opening up senior management positions for application by the general public depicts a move by an organization to promote transparency in the selection and filling of these positions. The process ensures that competent personnel are sourced who will be required to deliver on the requirements of the job upon signing a performance contract. Results in Table 2a below show that 87.5% of the studied corporations advertise the positions, 8.3% do not while 4.2% never divulged this information.

Table 2a: Advertisement of Senior Positions

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	21	87.5	91.3	91.3
No	2	8.3	8.7	100.0
Total	23	95.8	100.0	
Missing System	1	4.2		
Total	24	100.0		

Source: Research Data.

The decision to advertise the positions to the general public aims at detailing the duties and responsibilities of a particular office. Further enquiry on whether the current functions and responsibilities of the office bearers in senior positions are reflected in the job descriptions found out that in all the studied corporations, the duties and responsibilities are clearly reflected in the job descriptions. This reflection means a lot to the signing of performance contracts because those who sign them would be required to carry out their duties and responsibilities to deliver results that are in line with the measures and standards of the job.

All plans that are developed be they operational, financial or strategic take into consideration the potential and internal capability of a particular organization to implement them. Given that no organization can operate without such plans, the study purposed to establish if there are planning departments in the state corporations that are charged with such task. Consequently, if such planning departments exist, it further sought to know whether planning responsibilities are clearly assigned to particular managers/officers. The findings in Tables 2b and 2c indicate that 66.7 % of the studied corporations have planning departments and 91.7% have planning responsibilities assigned to particular managers in the planning departments. 33.3% don't have planning departments while 8.3% don't have planning responsibilities assigned to specific managers in the organization.

Table 2b: Presence of Planning Department

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	16	66.7	66.7	66.7
No	8	33.3	33.3	100.0
Total	24	100.0	100.0	

Source: Research Data.

Table 2c: Planning Responsibilities Assigned

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	22	91.7	91.7	91.7
No	2	8.3	8.3	100.0
Total	24	100.0	100.0	

Source: Research Data.

The study considered the above issues as important in furthering the achievement of study objectives because the setting of different organizational goals and objectives require close coordination and their pursuance tightly supervised, and unless this is done from a central point, the achievement of overall organizational goals would be in vain. This will hasten the development and signing of performance contracts because performance parameters, indicators and measures would be easily established and determined beforehand.

4.4 Perceived Link between Strategic Planning and Performance Contracting

Perception is the process by which an individual gives meaning to the environment. It influences behaviour and leads to the formation of attitudes. The way a manager sees a situation often has much greater meaning for understanding behaviour than does the situation itself. Perceptual processes play an important role in the decisions managers make. To indicate the perceived link between strategic planning and performance contracting among state corporation's managements, descriptive statements on the concept of performance contracting and its link to strategic planning were presented to the respondents. They were then required to score against a statement indicating how important they perceive of it by agreeing or disagreeing with a particular statement. Respective proportions were computed and presented in tables.

The perception index for each statement was then calculated by subtracting from each perception statement, the percentage of respondents who agreed with the statement from the percentage of those who disagreed with it. The proportions of respondents who were indifferent and/or missing (never responded) were ignored for the purpose of this calculation. Positive perception would be indicated when the perception index for a particular statement is positively high (50 and above) and negative when the perception index is negative or positively low (below 50). This can be summarised as:

Perception Index = Percentage of respondents who strongly agreed + Percentage of respondents who agreed – Percentage of respondents who strongly disagreed + Percentages of respondents who disagreed (Kweyu, M, 1998)

4.4.1 The importance attached to performance contracts

Emphasis on results requires a performance-oriented management culture that is guided by the right values and behaviours. The introduction of performance contracts introduces into the Civil Service a performance-oriented culture that will facilitate the attainment of desired results. The contracts are expected to instil accountability for results at the highest levels in the government. In turn, the top-level officials will hold those below them accountable for results. Eventually, the culture of accountability will trickle down to all levels of government machinery. It is with this perspective that the study sought to establish perceived importance attached to performance contracts by top-level management at state corporations. The findings of the study are as shown below.

Table 3a: The importance attached to performance contracts

	Frequency	Percent	Valid Percent	Cumulative Percent
Agree	8	33.3	33.3	33.3
Strongly agree	16	66.7	66.7	100.0
Total	24	100.0	100.0	

Perception Index 100

Source: Research Data.

The results indicate a perception index of 100 with all respondents agreeing with the assertion that the corporations attach much importance to performance contracts. 66.7% of the respondents strongly agreed to the statement, an implication that most of them positively perceive performance contracts as not in any way negating the employment contract but seek to strengthen and clarify obligations required of both parties in order to achieve the agreed targets.

4.4.2 There is hope of achieving major objectives by signing performance contracts

A performance contract is a tool of remedying the situation of multiple objectives by agreeing the preferred objectives, which the owner would like achieved. It addresses the multiplicity of principals by requiring one agency to sign on behalf of all of them (Kaufmann, 2002). The widely accepted rationale for performance contracting is that public agencies have multiple objectives and multiple principals. These fuzzy objectives lead to poor financial performance in most cases. It was the intention of this study to assess the view held by state corporations' management on how the signing of performance contracts would enhance their focus on achieving major objectives. Findings of the study are shown in Table 3b.

The results indicate that this assertion is perceived to be important with a perception index of 91.7. However, 8.3% of the respondents were indifferent on the statement with 29.2% and 62.5% of the respondents agreeing and strongly agreeing respectively.

Table 3b: Hope of achieving major objectives by signing performance contracts

	Frequency	Percent	Valid Percent	Cumulative Percent
Indifferent	2	8.3	8.3	8.3
Agree	7	29.2	29.2	37.5
Strongly agree	15	62.5	62.5	100.0
Total	24	100.0	100.0	

Perception Index 91.7

Source: Research Data.

The above results are in support of the researcher's expectations that the introduction and consequent signing of performance contracts in state corporations would act as a springboard towards their concentration and focusing in the achievement of paramount objectives.

4.4.3 Performance contracting has effectively improved performance

As noted by Njau (2005), the Permanent Secretary/Directorate of Personnel Management, performance contracting is a performance appraisal system designed to improve overall organizational performance by encouraging a high level of involvement and motivation, and increased staff participation in the planning and delivery of work. The study findings confirm this perspective with a positively high perception index of 95.8 by managers in state corporations that were studied. Majority of the respondents (58.3%) generally perceived it as important with 37.5% strongly agreeing with it and only one (4.2%) being indifferent about it as shown in the table below.

Table 3c: Performance contracting has effectively improved performance

	Frequency	Percent	Valid Percent	Cumulative Percent
Indifferent	1	4.2	4.2	4.2
Agree	14	58.3	58.3	62.5
Strongly agree	9	37.5	37.5	100.0
Total	24	100.0	100.0	

Perception Index 95.8

Source: Research Data.

4.4.4 Introduction of performance contracts has brought autonomy in the performance of duties in the corporations

Blasi (2002) points out that apart from the reliance on formal rules, performance contracting tends to go along with increasing autonomy in a number of areas, for example pricing, budget, procurement and personnel. This trend, he notes, is accompanied by new accountability relationships between ministers who are responsible for policy matters and provide the finance and public sector managers who are responsible for operational matters. Thus performance contracting reflects the principle that politics and management are essentially separate matters and, that public managers would be reasonably autonomous vis-à-vis ministers when it comes to operational issues. The study found out that this view received a relatively low positive perception from state corporations' managers with a perception index of 37.5 as shown below.

Table 3d: Autonomy in the performance of duties in the corporations due to the introduction of performance contracts

	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	4	16.7	16.7	16.7
Indifferent	7	29.2	29.2	45.8
Agree	9	37.5	37.5	83.3
Strongly agree	4	16.7	16.7	100.0
Total	24	100.0	100.0	

Perception Index 37.5

Source: Research Data.

The results indicate that quite a large proportion of respondents (29.2%) were indifferent on this assertion, with the other 16.7% of those studied disagreeing with it while the rest (54.2%) agreed with the statement. The findings imply that there are traces of political influence in the management of state corporations making it possible for performance contracts not working as expected.

4.4.5 The corporations have successfully implementing performance contracts

The Permanent Secretary/Director of Personnel Management (2005), commenting on a pilot group of sixteen state corporations that had signed performance contracts noted that following the success in implementing performance contracts in state corporations, the government purposed to extend the process to Civil Service beginning with permanent secretaries and accounting officers. Out of this note, the study purposively aimed at establishing the reality on the ground whose results are presented in Table 3e below.

Table 3e: Successful implementation of performance contracts

	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	1	4.2	4.3	4.3
Indifferent	6	25.0	26.1	30.4
Agree	13	54.2	56.5	87.0
Strongly agree	3	12.5	13.0	100.0
Total	23	95.8	100.0	
Missing System	1	4.2		
Total	24	100.0		

Perception Index 60.5

Source: Research Data.

The results above elicit a number of interpretations. The observation by the permanent secretary is confirmed whereby 16 corporations (50%) agreed with the statement. However, the results would not absolutely confirm that the sixteen belonged to the pilot group corporations. With a perception index of 60.5, it implies that a number of state corporations have not successfully implemented performance contracts. This could be attributed to the fact that some of those who were included in the study had just signed and were yet to report on the results. As shown above, one (4.2%) and 6 (25%) were in disagreement and indifferent respectively regarding the success in the implementation of performance contracts.

4.4.6 Top managements are very committed in the implementation of performance contracts

Performance contracts exhibit some aspects of agency theory in which top management carry out the duties of an agent, managing state corporations on behalf of the government, the owner of the agency. One of the attributes of performance contracts is that they are freely negotiated between government as owner of a public agency and the agency, and that performance targets are set by the agency and not the government. The study sought to find out the perceived top management commitment in the implementation of performance contracts, which they are party in designing. Table 3g shows the findings of the study.

Table 3g: Top managements' commitment in the implementation of performance contracts

	Frequency	Percent	Valid Percent	Cumulative Percent
Indifferent	2	8.3	8.3	8.3
Agree	11	45.8	45.8	54.2
Strongly agree	11	45.8	45.8	100.0
Total	24	100.0	100.0	

Perception Index 96.6

Source: Research Data.

The results show that majority of the respondents positively perceive top management as playing a leading role in ensuring successful implementation of performance contracts. The statement has a perception index of 96.6 with an equal proportion of those who strongly agreed and those who agreed i.e. 45.8% each. The findings of the study support the view that since performance contracts are expected to instil accountability for results at the highest levels in the government, the top-level officials will hold those below them accountable for results.

4.4.7 Top managements communicate effectively to staffs on performance contracts

This statement rests on the premise that the development and eventual signing of performance contracts is done by the top management as a result of free negotiation between them and the government agency. The parties agree on the targets to be achieved at the beginning of the year, and evaluation is carried out at the end of the performance period. This helps in application of incentives to good performance and sanctions to poor performance. Given that the signing of performance contracts are cascaded down the organizational hierarchy, the study sought to find out the perceived effectiveness with which the top management communicates of what is required from the other organizational members. Its findings are as shown below.

Table 3f: Effective communication by top managements to staffs on performance contracts

	Frequency	Percent	Valid Percent	Cumulative Percent
Indifferent	6	25.0	25.0	25.0
Agree	10	41.7	41.7	66.7
Strongly agree	8	33.3	33.3	100.0
Total	24	100.0	100.0	

Perception Index 75

Source: Research Data.

With a perception index of 75, a significant proportion of the respondents (25%) were indifferent on the statement citing instances of 50% effectiveness and 50% ineffectiveness. However, most respondents had a generally positive perception about the assertion with 41.7% and 33.3% agreeing and strongly agreeing respectively. This signifies that a fairly large number of organizational members are made aware of what is required of them as far as meeting the contractual obligations is concerned.

4.4.8 The feedback mechanism in the administration of performance contracts is very effective and adequate

Central to designing and administration of performance contracts is the setting of 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 have become part of the efforts of governments to respond to 'demands for results and for demonstrated performance in respect to results' by managing and reporting on outputs and outcomes, and accounting for the connection between outputs and outcomes. The mode of feeding back the output into the system to ensure comprehensive review of performance becomes crucial. The study's findings on the perceived effectiveness and adequacy of the feedback mechanism are presented below.

Table 3h: Effective and adequate feedback mechanism in the administration of performance contracts

	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	1	4.2	4.3	4.3
Indifferent	10	41.7	43.5	47.8
Agree	6	25.0	26.1	73.9
Strongly agree	6	25.0	26.1	100.0
Total	23	95.8	100.0	
Missing System	1	4.2		
Total	24	100.0		

Perception Index 55.8

Source: Research Data.

Generally, it is positively perceived with a perception index of 55.8. However, the proportion of respondents that were indifferent (41.7%) and that which disagreed with it (4.2%) gives the study a reason to conclude that the effectiveness and adequacy of the feedback mechanisms in the administration of performance contracts is wanting.

4.4.9 The attitudes of staff toward strategic change in the organizations are very positive

The transformation of the Public Service **from** process oriented, process and entitlements, control, unnecessary bureaucratic practices, inward considerations and being risk averse to targeted results, delegation, enabling and empowering speedy delivery of services/service charters, citizen/client focused service and risk management, was the driving force behind the introduction of performance contracts. Inevitably, their introduction was fraught with enormous strategic changes. How this change was received by organizational members is subjective and their perceived attitudes is what this study purposed to find out. The results are presented below.

Table 3i: Positive attitudes of staff toward strategic change in the organizations

	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	1	4.2	4.2	4.2
Indifferent	6	25.0	25.0	29.2
Agree	14	58.3	58.3	87.5
Strongly agree	3	12.5	12.5	100.0
Total	24	100.0	100.0	

Perception Index 56.6

Source: Research Data.

The results indicate a positive perception index of 56.6 implying that generally, organizational members' attitudes towards strategic change were positive. However, this does not rule out the fact that there are some organizational members whose attitudes were negative. A 4.2% proportion that disagreed and a 6% proportion that was indifferent are of significance and cannot be taken lightly. The results imply some resistance to change, which is a general expectation in an organizational setting.

4.4.10 A very close link exists between performance contracting and strategic planning of the corporations

The cornerstone for designing a performance contract is the strategic plan of the public agency. This is because the strategic plan defines the agency's current situation, where the agency intends to go, how it will get there, when it will get there, what needs to be done and by who, and how this will be reviewed. The backbone of performance contracts is performance indicators, which are derived from the mission and objectives of the agency, as contained in the Strategic Plan. The perceived link between performance contracting and strategic plans of the corporations was found to be a very close one as indicated by the findings of the study presented in Table 3j below.

With a highly positive perception index of 95.9, the results were in line with Murphy (2004)'s observation that a performance contract is a management tool that ensures correlation between planning and implementation, coordination between various government agencies, an enabling public policy environment for other downstream reforms and a fair and accurate impression about public enterprise performance.

Table 3j: Existence of close link between performance contracting and strategic planning

	Frequency	Percent	Valid Percent	Cumulative Percent
Indifferent	1	4.2	4.2	4.2
Agree	10	41.7	41.7	45.8
Strongly agree	13	54.2	54.2	100.0
Total	24	100.0	100.0	

Perception Index 95.9

Source: Research Data.

On the basis of these findings, it could be deduced that the strategic plans developed by the various corporations provide the impetus on the formulation of performance contracts. It therefore implies that the performance targets, indicators, obligations, and measurements are all drawn from the strategic plans hence a very close link between the two must be ensured.

4.4.11 Corporations best rated in aligning performance contracting and strategic planning

Since the introduction of performance contracts, it was imperative for the study to assess how individual corporations were rated in terms of how they faired with their implementation efforts and alignment with strategic planning. As a performance management tool, performance contracts are expected to establish accountability and align performance expectations with organizational goals; enable tracking of organizational goals, and facilitate their achievement; focus on results, rather than subjective assessments, thus motivating improved employee performance; develop and maximize the unique skills and capabilities of this talented workforce; and provide a systematic framework to integrate pay, performance, and rewards systems. The studied corporations' perceived ratings are as presented below.

Table 3k: Alignment of performance contracting and strategic planning

	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	1	4.2	4.5	4.5
Indifferent	2	8.3	9.1	13.6
Agree	11	45.8	50.0	63.6
Strongly agree	8	33.3	36.4	100.0
Total	22	91.7	100.0	
Missing System	2	8.3		
Total	24	100.0		

Perception Index 74.9

Source: Research Data.

The results indicate that although the perceived rating was high (with a perception index of 74.9), the proportion that disagreed with the statement (4.2%); that which was indifferent (8.3%); and that which never responded (8.3%) send an impression that is suggestive of some instances of misalignments between strategic plans and performance contracts. However, the findings largely reveal that most corporations' mission areas provide expected specific outcome goals that are aligned with the performance contracting implementation framework.

4.4.12 The capacity to achieve objectives has improved after signing performance contracts

This assertion originate from the fact that the introduction of performance contracting was necessitated by the need to address the challenge of poor and declining performance in the public sector, which in turn had inhibited realization of sustainable economic growth. As a constituent of Public Sector Reform Strategy, the study sought to establish the perceived impact of performance contracting on the capacity to achieve the set objectives. The findings are as shown in Table 31.

Table 31: Improved capacity to achieve objectives

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1	4.2	4.5	4.5
Disagree	1	4.2	4.5	9.1
Indifferent	2	8.3	9.1	18.2
Agree	12	50.0	54.5	72.7
Strongly agree	6	25.0	27.3	100.0
Total	22	91.7	100.0	
Missing System	2	8.3		
Total	24	100.0		

Perception Index 66.6

Source: Research Data.

The results indicate a wide range of perceptual inclinations. The study treats these findings with a lot of significance even though the general perception is positive.

4.4.13 Organizational members are well prepared to implement performance contracts

This statement is an extension of the earlier ones relating to the awareness of organizational members on performance contracts and the top managements' communication to other staffs on the same. The findings as presented below reveal that generally, organizational members are well prepared to implement performance contracts.

Table 3m: Organizational members well prepared to implement performance contracts

	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	1	4.2	4.2	4.2
Indifferent	4	16.7	16.7	20.8
Agree	17	70.8	70.8	91.7
Strongly agree	2	8.3	8.3	100.0
Total	24	100.0	100.0	

Perception Index 74.9

Source: Research Data.

As indicated by the results above, 79.1% of the respondents generally agreed that organizational members are well prepared, 4.2% disagreed, while 16.7% of them were indifferent. Its perception index is positive at 74.9. However, the conclusion to be drawn is expected to consider that the study was carried out at a time when the cascading process in some corporations was still ongoing.

4.4.14 Budgetary allocations are adequate to enable managers achieve their set targets

A performance-contracting regime is not a substitute for overall performance management. It is merely one element of a performance management framework, which in turn is part of an overall resource allocation system. One of the central internal capabilities of any organizations is the resources that are at its disposal to enable it implement its strategies effectively. Given that performance contracts concern the achievement of set targets, budgetary allocations to that effect is necessary. This issue received varied responses as shown below.

Table 3n: Adequate budgetary allocations

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	3	12.5	12.5	12.5
Disagree	3	12.5	12.5	25.0
Indifferent	6	25.0	25.0	50.0
Agree	5	20.8	20.8	70.8
Strongly agree	7	29.2	29.2	100.0
Total	24	100.0	100.0	

Perception Index 25

Source: Research Data.

With a very low perception index, half (50%) of the respondents agreed that budgetary allocations are adequate; quarter (25%) of them claimed inadequate budgetary allocations, while another quarter (25%) neither claimed adequacy nor otherwise. The results raise a lot of concern on whether the effect that performance contracts were expected to create will eventually be felt given that some of the corporation's budgetary allocations are inadequate.

4.4.15 Budgetary allocation is under managers' control to ensure timely achievements of their set targets

A slight deviation from statement (n) above concerning adequate budgetary allocation is the amount of control that is bestowed on those who have signed performance contracts and have the agreed targets to achieve within a specified period. The results were similar with statement (n)'s as shown in Table 3o.

Table 3o: Budgetary allocation under managers' control

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	2	8.3	8.7	8.7
Disagree	4	16.7	17.4	26.1
Indifferent	4	16.7	17.4	43.5
Agree	5	20.8	21.7	65.2
Strongly agree	8	33.3	34.8	100.0
Total	23	95.8	100.0	
Missing System	1	4.2		
Total	24	100.0		

Perception Index 29.1

Source: Research Data.

The statement scored a low perception index of 29.1 meaning that a significant proportion of respondents disagreed with the statement while others were indifferent about it. However, an encouraging 54.1% of the respondents generally agreed that budgetary allocation is under respective managers' control to ensure that they achieve set targets within time. This reflects a transition towards autonomy in most of the managerial tasks in the state corporations and that the management of public resources is placed in the most competent hands.

4.4.16 The designing of performance contracts is mutually done, not imposed on managers

One of the attributes of performance contracts is that performance targets are set by the agency (in this case the state corporation) and not the government. The government negotiates the targets to determine their adequacy, comprehensiveness, relevance to the mandate of the agency and ensures that they are growth oriented.

Table 3p: Design of performance contracts mutually done, not imposed on managers

	Frequency	Percent	Valid Percent	Cumulative Percent
Agree	11	45.8	47.8	47.8
Strongly agree	12	50.0	52.2	100.0
Total	23	95.8	100.0	
Missing System	1	4.2		
Total	24	100.0		

Perception Index 95.8

Source: Research Data.

The research findings in Table3p above show that 95.8% of the respondents agreed that the designing of performance contracts is mutually done. Consequently, its perception index stands at the same 95.8 implying that CEOs and authority officials sign performance contracts based on their perceived understanding of what is reflected in the strategic plans because the plans form the basis of the performance targets to be met.

4.4.17 Varied stakeholder interests override strategic objectives and goals when designing performance contracts

The rationale for the existence of public sector corporations is to deliver goods and services to the public with varied interests. The corporations are controlled by the government through the direct appointment of accounting officers/authority officers in which some interests (political or regional) could become manifest. As a result, these corporations have to deal and grapple with a myriad of stakeholders whose interests are diverse amid perceived excessive regulations and controls, frequent political interference, and multiplicity of principals among others. It is expected that such interests would creep in during the strategic planning process in the state corporations whose impact is expected to extend to the design and administration of performance contracts. These expectations are confirmed, though to a lesser degree, by the findings of the study as shown in Table 3q below.

Table 3q: Varied stakeholder interests override strategic objectives and goals when designing performance contracts

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1	4.2	4.3	4.3
Disagree	5	20.8	21.7	26.1
Indifferent	6	25.0	26.1	52.2
Agree	9	37.5	39.1	91.3
Strongly agree	2	8.3	8.7	100.0
Total	23	95.8	100.0	
Missing System	1	4.2		
Total	24	100.0		

Perception Index 20.8

Source: Research Data.

The results indicate that stakeholder interests override the setting of strategic objectives and design of performance contracts to a limited degree recording a considerably low perception index of 20.8. However, it should be noted that a significant proportion of respondents (45.8%) agreed that such interests take centre stage. However still, it should be noted due to a fairly significant proportion that was indifferent and that which missed out (25% and 4.2% respectively), substantive and objective conclusions cannot be arrived at. Nevertheless, it could be observed that stakeholder interests are paramount to making major strategic decisions and a thorough analysis of the same is necessary for proper stakeholder mapping.

4.4.18 Further improvements are necessary to enhance the effectiveness of performance contracts in the corporations.

This statement was coined out of the belief that the concept of performance contracting is novel in the Kenyan context and it is here to stay. It is within this perspective that the government of Kenya started sensitising the public sector corporations on the concept using performance contracting sensitisation manual and thereafter developed an information booklet on performance contracts to guide on the process of performance contracting. However, there are many challenges encountered in the process of performance contracting in developing countries and these are inevitable in Kenya. It would necessarily call for further improvements to enhance the effectiveness and realize optimum outcome from performance contracts. The study findings on the same are as presented below.

Table 3r: Further improvements necessary to enhance effectiveness of performance contracts

	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	2	8.3	9.1	9.1
Indifferent	1	4.2	4.5	13.6
Agree	6	25.0	27.3	40.9
Strongly agree	13	54.2	59.1	100.0
Total	22	91.7	100.0	
Missing System	2	8.3		
Total	24	100.0		

Perception Index 70.9

Source: Research Data.

The findings indicate a perception index of 70.9 implying that a large proportion of the respondents (86.4%) felt the necessity of further improvements within their corporations to enhance effective implementation of performance contracts. Some of the areas that the study had in perspective that require further improvement include but not limited to institutionalizing performance-oriented culture in the corporations, integrating performance contracts with other management systems, putting in place the legal framework for performance contracts at the legislative level, and reforming their design and implementation process.

CHAPTER FIVE: SUMMARY AND CONCLUSIONS

5.1 Introduction

In this chapter the findings of the study are summarized and discussed in relation to the objectives of the study. Also included in this chapter are the conclusions, limitations of the study and recommendations for further research.

5.2. Summary

Performance contracting has been introduced as one element of broader public sector reform aimed at improving efficiency and effectiveness of public enterprises, while reducing total costs. The introduction of performance contracts could be compared to a major paradigm shift in the manner and style of management of public resources. It is something that necessitates organizational cultural change in a number of ways of doing things. 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. This study sought to investigate into the management perception of performance contracting and its link to strategic plans at the state-owned corporations.

The study established that majority (83.3%) of the corporations studied are fully state owned implying that the government controls most of their operations and 45.8% of them have a profit orientation majorly for sustainability. The study also found out that all the corporations studied engaged in strategic planning. This was evidenced by the existence of mission statements, objectives and strategic plans. Most of the corporations (91.7% of those studied) were found to implement their strategic plans optimally. It was also established that most corporations' (87.5%) senior management positions are advertised to the general public from whom competitive selection is done.

Regarding management perception of performance contracting at the state corporations, it was found that, in general, the managers have a highly positive perception of performance contracting. The same was manifested on the perceived link between performance contracting and the corporations' strategic plans. Of 18 statements describing performance contracting and its link to strategic plans, 77.8% of them had perception indices of 55 and above implying a generally positive perception by the managers. The remaining 22.2% of the statements had perception indices ranging between 20 and 37.5. Even though no statement recorded a negative perception index, the study considered the lowly positive perception indices implying generally negative perception because significant proportions of managers seem to have disagreed with the statements.

5.3 Conclusions

The findings of this research have unearthed a number of issues regarding management perception of performance contracting and its link to strategic plan in the state owned corporations. Generally, managers in the public sector corporations are largely in favor of the introduction of performance contracts and they believe that there exists a close link between performance contracts and the strategic plans. However it appears that the main hindrance of effective implementation of the performance contracts is inadequate resources and lack of explicit autonomy in the performance of duties and in budgetary control to ensure timely achievement of the set targets. This may explain the reason why most respondents felt the necessity of further improvements to enhance the effectiveness of performance contracts in the organizations. Nevertheless, the study commended the success so far achieved in the implementation of performance contracts as evidenced by the rating of the corporations in terms of aligning performance contracts with their strategic plans.

5.4 Limitations of the Study

In evaluating the results of the study, the following limitations ought to be borne in mind.

The study was constrained first and foremost with time. The time period for the study was too short and this limited the scope and depth of the study. Owing to this factor, the managers had to find time within their tight schedules to fill the questionnaires. Due to these two aspects, it was not possible to get responses from all the intended corporations to participate in the study.

Secondly, there are limitations of measurement, which are common to social researches. Beliefs and feelings that are used in the study of perceptions may change over time and across different personalities. Also respondents may give biased or dishonest answers.

Thirdly, the study was limited to only public corporations and may not apply to the entire public service given that the signing of performance contracts in ongoing in the rest of the civil service.

5.5 Recommendations for Further Research

Due to limitations in time, opinions and perceptions of managers from other public corporations were not investigated. Therefore, in connection with further research, possible areas can be recommended.

First since this study adopted a cross-sectional design yet the corporations operate in different sectors of the economy and are under different parent ministries, a case-by-case study could be done to take care of unique circumstances that are particular to each corporation in order to come up with valid and authentic conclusions instead of relying on generalizations.

Secondly, other dimensions of the concept of performance contracting could be investigated in the public corporations. For instance, one might be interested in investigating the relationship between performance contacting and economic performance of public corporations.

Thirdly, the study concentrated on the top and authority officials' perceptions of performance contracting. Perhaps one might be interested in studying the same but from other organizational members' standpoint.

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APPENDICES

Appendix I: Questionnaire

Part A: Bio Data

1. Name of Public Corporation________________________________

____

2. Year of establishment ____________________

3. Orientation (tick) : For Profit [ ]. Not for Profit [ ]

4. Number of employees (Tick)

Below 500 [ ]

500-1000 [ ]

1001-2000 [ ]

Overr 2000 [ ]

5. Incorporation:

a) Name of Act of Parliament under which you operate

____

b) If not Act of Parliament, specify.

6. Ownership (Tick):

Fully state-owned [ ]

Partially state-owned [ ]

7. How long have you been with the organization (Tick)

1-3 Years [ ]

4-6 Years [ ]

7-10 Years [ ]

Over 10 Yrs [ ]

8. Are Positions like yours generally advertised to the general public? (Tick)

Yes [ ] No [ ]

9. Does your job description reflect your current functions and responsibilities? (Tick)

Yes [ ] No [ ]

Part B: Strategic Planning in the Corporation

10. Mission and Objectives

a) Do you have a mission statement? (Tick)

Yes [ ] No [ ]

b) If yes, is it a written statement? (Tick)

Yes [ ] No [ ]

11. a) Are objectives set for your corporation? (Tick)

Yes [ ] No [ ]

b) If yes, at what level(s) are these objectives set? (Tick)

Board [ ]

Top Mangement [ ]

Middle Management [ ]

Others (specify)______________________________

c) Are these objectives in written form? (Tick)

Yes [ ] No [ ]

d) Is everyone in your organization aware of these objectives? (Tick)

Yes [ ] No [ ]

12. a) What type of plans does your corporation develop? (Tick)

Financial [ ]

Operational [ ]

Others (specify)______________________________

b) What time period do these plans cover? (Tick)

0-1 year [ ]

1-3 years [ ]

3-5 years [ ]

over 5 years [ ]

c) Indicate the year when these plans were first developed in your organization____________________

d) Are these plans implemented once they are developed? (Tick)

Yes [ ] No [ ]

e) Are there clearly assigned responsibilities for planning? (Tick)

Yes [ ] No [ ]

f) Do you have a planning department? (Tick)

Yes [ ] No [ ]

13. Do you have strategic plans? (Tick)

Yes [ ] No [ ]

Part C: Management Perception of Performance Contracting and its link with Strategic Plan

In a scale of 1 to 5 (shown below), indicate the extent to which you perceive the importance of the following statements by agreeing or disagreeing with a particular statement

Key: 1- Strongly Disagree (Totally unimportant)

2- Disagree (Unimportant)

3- Neither Agree nor Disagree (Indifferent)

4- Agree (Important)

5- Strongly Agree (Very important)

14. The organization attaches much importance to performance contracts. {1} {2} {3} {4} {5}

15. The organization hopes to achieve its major objectives by signing performance contracts. {1} {2} {3} {4} {5}

16. Performance contracting acts as an effective tool for improving performance in the organization. {1} {2} {3} {4} {5}

17. The introduction of performance contracts has brought much freedom in the performance of duties in the organization. {1} {2} {3} {4} {5}

18. The organization is very successful in implementing performance contracts. {1} {2} {3} {4} {5}

19. The organization's top management is very committed to the implementation of performance contracts. {1} {2} {3} {4} {5}

20. The top management communicates very effectively to the staffs on performance contracts. {1} {2} {3} {4} {5}

21. The feedback mechanism in the administration of performance contracts is very effective and adequate. {1} {2} {3} {4} {5}

22. The staffs' attitudes toward strategic change in the organization are very positive. {1} {2} {3} {4} {5}

23. There is a very close link between performance contracting and strategic plan of the organization. {1} {2} {3} {4} {5}

24. The organization is best rated in terms of aligning performance contracts and its strategic plan. {1} {2} {3} {4} {5}

25. The organization's capacity to achieve its objectives has greatly improved after the introduction of performance contracts. {1} {2} {3} {4} {5}

26. The organization's staffs are very prepared in the implementation of performance contracts. {1} {2} {3} {4} {5}

27. There is adequate budget allocation to enable you achieve the set targets. {1} {2} {3} {4} {5}

28. The budgetary allocation is under your control to ensure timely implementation of your set targets. {1} {2} {3} {4} {5}

29. The writing of performance contracts is mutually done and not imposed on management {1} {2} {3} {4} {5}

30. Varied stakeholder interests take centre stage when drafting performance contracts regardless of goals and objectives stipulated in the strategic plan {1} {2} {3} {4} {5}

31. Further improvements are necessary to enhance

the effectiveness of performance contracts

in the organization. {1} {2} {3} {4} {5}

Thank you for your cooperation

Appendix II: List of State Corporations as at March 2005

1. National Aids Council
2. Kenya Institute of Administration
3. Kenya Ordinance Factories Corporation
4. National Museums of Kenya
5. NGOs Co-ordination bureau
6. Coast Development Authority
7. Ewaso Ngi'ro North Development Authority
8. Ewaso Ngi'ro South Development Authority
9. Kerio Valley Development Authority
10. Tana and Athi Rivers Development Authority
11. Lake Basin Development Authority
12. Kenya Bureau of Standards
13. Kenya Industrial Estates
14. Industrial Development Bank
15. Industrial and Commercial Development Corporation
16. Kenya Wine Agencies Limited
17. Kenya National Trading Corporation Limited
18. Export Promotion Council
19. Investment Promotion Centre
20. Kenya Industrial Research and Development Institute
21. East African Portland Cement Company
22. Export Processing Zones Authority
23. Kenya Industrial Property Institute
24. Kenya Tourist Board

25. Catering Tourism and Training Development Levy Trustees

26. Kenya Tourist Development Corporation

27. Bomas of Kenya Limited

28. Kenya Utalii College

29. Kenya Broadcasting Corporation

30. Kenya Wildlife Service

31. Kenya Forest Research Institute

32. National Environmental Management Authority

33. National Water Conservation and Pipeline Corporation

34. Water Resource Management Authority

35. Water Services Regulatory Board

36. Nairobi Water Services Board

37. Catchment Area Advisory Committee

38. Nyayo Tea Zones Development Corporation

39. Nzoia Sugar Company Limited

40. South Nyanza Sugar Company Limited

41. Kenya Sugar Board

42. Kenya Sisal Board

43. Pyrethrum Board of Kenya

44. Agricultural Finance Corporation

45. Chemelil Sugar Company Limited

46. National Cereals and Produce Board

47. Hortcultural Crops Development Authority

48. Kenya Agricultural Research Institute

49. Kenya Dairy Board

50. Kenya Marine and Fisheries Research Institute

51. Kenya Plant Health Inspectorate Services

52. National Irrigation Board

53. Pest Control Products Board

54. Coffee Research Foundation

55. Agricultural Development Corporation

56. Kenya Seed Company Limited

57. Agro-Chemical and Food Company Limited

58. Tea Research Foundation of Kenya

59. Tea Board of Kenya

60. Coffee Board of Kenya

61. Kenya Meat Commission

62. Jomo Kenyatta University of Agriculture and Technology

63. Jomo Kenyatta Foundation

64. Kenya Literature Bureau

65. Kenya National Examination Council

66. School Equipment Production Unit

67. Higher Education Loans Board

68. Teachers Service Commission

69. Moi University

70. University of Nairobi

71. Kenyatta University

72. Egerton University

73. Maseno University

74. Western College of Science and Technology

75. Kenya National Libraries Service

76. Sports Stadia Management Board

77. National Hospital and Insurance Fund

78. Kenya Medical Training College

79. Kenyatta National Hospital

80. Moi Teaching and Referral Hospital

81. Kenya Medical Research Institute

82. Kenya Medical Supplies Agency

83. Kenya Railways Corporation

84. Kenya Ports Authority

85. Kenya Airports Authority

86. Kenya Ferry Services Limited

87. Kenya Civil Aviation Authority

88. Telkom (K) Limited

89. Communication Commission of Kenya

90. Postal Corporation of Kenya

91. Safaricom Kenya Limited

92. Kenya College of Communications and Technology

93. Kenya National Shipping Line

94. Kenya Post Office Savings Bank

95. Capital Markets Authority

96. Consolidated Bank of Kenya

97. National Bank of Kenya Limited

98. Kenya Re-Insurance Corporation

99. Kenya National Assurance Company

100. Kenya Revenue Authority

101. Retirement Benefits Authoriy

102. National Housing Corporation

103. Kenya Roads Board

104. Kenya Electricity Generating Company

105. Electricity Regulatory Board

106. Kenya Pipeline Company Limited

107. National Oil Corporation Limited

108. Kenya Power and Lighting Company Limited

109. Kenya Petroleum Refineries

110. Kenya Institute of Policy and Research

111. Co-operative College of Kenya

112. Council for Legal Education

113. Chief Administrative Officer, Local Authorities