

**PERCEPTION OF EMPLOYEES TOWARDS PERFORMANCE
CONTRACTING: A CASE OF MINISTRY OF TRADE**

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Requirement for the Degree of Master of Business Administration
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DECLARATION

This research project is my original work and has not been presented for a degree at any other university.

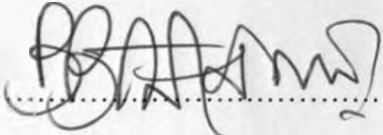
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This research project has been submitted for examination with my approval as the candidate's University Supervisor.

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DEDICATION

This study is dedicated to my loving family: wife, daughters and sons, who are my strength hold. Your smiles brighten my day. God bless you in all your endeavors.

ACKNOWLEDGEMENT

I wish to express my sincere appreciation to my supervisor Mr George Omondi for having agreed to supervise this research paper and for his utmost patience in reading the drafts, educating me and offering his guidance without which the research would not have been a reality.

I would also like to express my sincere thanks to my family, my children and my wife for their love, understanding and support during the project. I would also thank the Ministry of Trade staff member who took their time to answer the questionnaires for their kind act made this project a reality.

Last but not least, I thank Almighty God for his guidance and providence which has enabled me to undertake this project that has been involving in terms of time and resources.

ABSTRACT

Performance management has been adopted as a strategic response to competition and market demands by both private and public enterprises. In public management literature, performance management has focused on contribution of employees to improved service delivery. Performance contracting is a broader sector reform aimed at improving efficiency and effectiveness while reducing costs. Performance contracting includes a range of management instruments used to define responsibilities and expectations between parties to achieve mutually agreed results.

This study sought to establish perception of staff towards performance contracting in the Ministry of Trade and the factors influencing the perception. The study adopted a case study design, the target population was Ministry of Trade employees in the headquarters in Nairobi from which a sample size of 180 staff were chosen using simple random stratified sampling technique. Primary data was collected using questionnaires. Descriptive statistics such as frequencies, mean and standard deviation were used to analyse the data.

Findings of the study were; that salary disparities, employees empowerment and senior management commitment affect employee perception towards performance contracting and that staff participation in setting performance targets contributed to negative perception towards performance contracting.

The finding therefore concluded that salary disparities, empowering of employees, senior management commitment and appreciation of staff needs contributed to negative

perception of staff towards performance contracting. It was further concluded that staff participation in setting performance targets, staff cooperation, commitment by senior management, morale of staff and teamwork are factors that contributed greatly to negative perception of staff towards performance a contracting.

The study recommended that the ministry should adequately address issues which contributed to negative perception of staff towards performance contracting and also address factors that negatively influenced their perception towards performance contracting. Finally it is suggested for further research that studies be conducted on effectiveness on performance in enhancing the performance of the ministry and government departments in Kenya.

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CHAPTER ONE: INTRODUCTION

1.1 Background

Performance management is a “strategic and integrated process that delivers sustained success to organizations by improving the performance of people who work in them and by developing the capabilities of individual contributors and teams”. According to Muollin (2002) and de Bruijn (2001), the objectives of performance management at the heart of the government reform agenda are: rationalization, in terms of size, cost and functions; the introduction of more effective systems of financial accountability; greater transparency in the operation of these public institutions; the upgrading of the skills base of the sector and the modernization of its functional principles, procedures and systems; and the development of a realistic remuneration policy based on performance.

Performance contract has been widely used in the public sector in France, Netherlands and New Zealand with marked success. The experience in other countries though, as in the case of India, Morocco, South Africa, Cote D’Ivoire and Gambia among others have shown mixed results (Shirley, 1998; Shirley Xu, 2001; Mapelu, 2005; Trivedi, 2004).

In Kenya, the concept of performance contracting was first introduced in the management of state corporations in 1989. A parastatal reform strategy paper, which was approved by the cabinet in 1991, was the first official recognition of the concept of performance contracting as it was part of the policies that were recommended to streamline and improve the performance of state corporations.

According to GOK(2004) the objective of introducing performance contracting in Kenya include; improved service delivery to the public by ensuring that top managers are accountable for results, reversing the decline in efficiency and ensuring that resources are focused on attainment of key national policy priorities of the government institutions. Performance oriented culture in the public service through introduction of an objective performance appraisal system, measure and evaluate performance, linking reward to measurable performance, facilitate the attainment of desired results, instill accountability for results at the highest level in government machinery. In order to strengthen and clarify the obligation required of the government and its employees to achieve agreed target. The role of performance based contracting in the achievement of “Vision 2030” which is a government Blue print for the implementation of the Economic Recovery Strategy for Wealth and Employment Creation by the year 2030. The government reiterates that it is the long-term interest of the people of Kenya to fully internalize the culture of performance contracting and particularly the citizen’s service delivery charter.

1.1.1 Perception

The perception of an individual, when he or she looks at a target and attempts to interpret what he or she sees is heavily influenced by personal characteristics of the individual perceiver. Personal characteristics that affect perception include a person’s attitudes, personality, motives, interests, past experiences and expectations.

People in organizations are always judging each other; managers must appraise their employees’ performances and evaluate how much effort they are putting into their jobs.

A new person who joins a work team is immediately “sized up” by other members. In

many cases, these judgments have important consequences for the organizations and one such specific application is the performance evaluation. An employee's performance appraisal is very much dependent on the perceptual process. An employee's future is closely tied to appraisal, promotions, pay raises and continuation of employment is among the most obvious outcomes. The performance appraisal represents an assessment of the employer's work (Wildavsky and Dake, 2001). The process of performance management process include; performance agreements or contracts, personal development plan, managing performance throughout the year, performance review, documentations and evaluation.

The appraisal can be objective although many jobs are evaluated in subjective terms. Subjective measures are easier to implement, they provide managers with greater discretion and many jobs do not readily lend themselves to objective measures. They are, by definition judgmental and the evaluator forms a general impression of an employee's work. The degree to which managers use subjective measures in appraising employees and what the evaluator perceives to be good or bad employee characteristics or behaviours will significantly influence the outcome of the appraisal (Armstrong, 2003).

Individuals behave in a given manner based not on the way their external environment actually is but, on what they see or believe it to be. It is the employee's perception of a situation that becomes the basis for behaviour. The manager can successfully plan, organize the work of employees, help them to structure their work more efficiently, and effectively. However, all these efforts might not succeed due to the perception of employees towards those efforts. The issues such as fair pay for work performed, the

validity of performance appraisals and the adequacy of the working conditions are not judged by employees in a way that ensures common perceptions, nor can there be assurance that individuals will interpret conditions about their jobs in a favorable light (Ulleberg and Rundmo, 2003).

1.1.2 Performance Contracting

Performance contracting is broader public sector reform aimed at improving efficiency and effectiveness, while reducing total costs according to Organization of Economic Cooperation Development, (1999). Performance contracts can be defined as a range of management instruments used to define responsibilities and expectations between parties to achieve mutual agreed results. The agreement clearly specifies their mutual performance obligations, intentions and responsibilities. The contract is intended to address economic, social and other tasks that an agency has to discharge for economic performance and desired results. It organizes and defines tasks so that management can perform them systematically, purposefully and with reasonable probability of accomplishment Organisation of Economic Cooperation Development, (1999). It also assists in developing points of view, concepts and approaches for determining what should be done and how to go about it. A performance contract consists of two components namely, performance targets and review and evaluation of periodic and terminal performance. Prior to signing of contracts, training and sensitization is done for senior civil servants, who then cascade it down to the lower staff levels.

A performance contract is a freely negotiated agreement between government acting as the owner of the agency and the agency. It clearly specifies the intentions, obligations, responsibilities and powers of the parties. It addresses economic, social and other tasks to be discharged for economic or other desired gain. Performance contracts originated from the perceptions that the performance of the public sector has been consistently falling below the expectations of the public. Performance contract is part of broader public sector reforms aimed at improving efficiency and effectiveness in the management of public service. The problems that have inhibited the performance of government agencies are largely common and have been identified as excessive controls, multiplicity of principles, frequent political interference, poor management and outright mismanagement. While several approaches have been used to address these challenges, it is hoped that performance contract will be an effective tool for managing productivity.

The performance contracting in public service was introduced in 2005. For the civil service, the first level contract is signed between the President and the Ministers. The contract is then signed between the Head of Civil Service and the Permanent Secretaries, then cascades down to the middle and lower cadres of the civil servants. Every year, the performance contract of every ministry for the last one year is evaluated by an Adhoc Evaluation team on performance contracting with a view of ascertaining whether the agreed performance benchmarks which every ministry had undertaken to accomplish have been actually achieved and if not give the reasons for failure to achieve those performance targets during the year under review.

Performance contracts are based on the premise that what gets measured gets done. The

results of performance contracting have been mixed. In some countries there has been a general sustained improvement in public enterprise management while in other countries some public enterprises have not responded or have been prevented by government policies from responding. A considerable amount of resources has been spend in the implementation of the performance contracting since its inception in 2005 and therefore the perception of civil servants towards performance contract should be examined to ascertain whether the purpose for which it was intended to achieve has be realized.

The rationale for introducing performance contracts in the public service was to address new institutional structures and arrangement for managing and delivering programmes and services such as (Privatization, commercialization, contracting out and decentralization). second; systematic reforms (market type mechanisms, new budgeting and planning systems, administrative modernization, and decentralization of management) and lastly, new methods of service delivery. While these new methods are seen as addressing weaknesses in more traditional centralized and compliance based management systems, they bring their own set of problems. Management systems that are disaggregated, decentralized and devolved need a new framework to guide behaviour. These changes do not only rely on uniform rules for the management relationship or for ensuring accountability in the use of public resource delivery of public services. In view of the short comings evident in the systems, countries have adopted the system of performance contracting as a management tool. Performance based contracting has been identified by both the private and public sectors as an effective way of providing and acquiring quality goods and services within available budgetary resources (Mapelu,

2005).

1.1.3 Ministry of Trade

The mandate of the ministry of trade is derived from the presidential circular No. 1/2008 of 30th May, 2008 on the organization of Government of the Republic of Kenya. The ministry of trade's current mandate is; Trade development policy; Promotion of Retail and Wholesale markets; Development of Micro and Small Business; Fair Trade Practices and Consumer Protection; Private Sector Development and International Trade Affairs – Common Market for East and Southern Africa (COMESA), World Trade Organization (W.T.O). The ministry will champion the promotion of both domestic and foreign trade through creation of an enabling environment as highlighted in 2008 – 2012 strategic plans. To effectively implement the ministry's mandate, the ministry's mission, vision and core values have been aligned to reflect the ministry's trade and investment priorities. The staffing structure in the Ministry of Trade is based on the departments in the ministry. Under the General Administration Department the staff includes the Permanent Secretary, Senior Deputy Secretary, Deputy Secretary and under-secretary. The other officers in the department are, Chief Finance Officer, Assistant Director of Public Communication, Senior Principal Procurement Officer and Principal State Counsel. Under them are twenty one (21) and forty eight (48) professional and support staff respectively.

The department of External Trade, Human Resource Management, Internal Trade, and Weights and Measures are each headed by Secretary of External Trade, Deputy Director of Human Resource Management, Director of Internal Trade and Director of Weights and

Measures respectively and assisted by the Deputy Directors respectively. The professionals working under these departments are two hundred and twenty seven (227) while the support staffs are two hundred and five (205). The departments of central Planning and Project Monitoring unit is headed by Chief Economist and assisted by the Principal Economist, while the Accounts Division and Business premises and Rent Tribunal are headed by the Principal Accounts Controller and Magistrate respectively. The number of professionals working under the central planning unit and project monitoring unit departments are nineteen (19) and support staff are forty seven (47). The department of Kenya Institute of Business Training is headed by a principal and assisted by the deputy principal with seven (7) professionals and nineteen (19) support staff. The total number of staff in the ministry of Trade are six hundred and sixteen.

1.2 Statement of the Problem

Performance management has been adopted as a strategic response to competition and market demands by both private and public enterprises. In public management literature performance management has focused on the contribution of employees to improved service delivery. Performance contracting enhances employee compliance with targets and enhances quality of service.

According to Robins (2007) positive perception by employee towards performance contracting will boost their morale leading to increased productivity, job satisfaction, lower turnover, reduce absenteeism and improved quality of service. Negative perception will have the opposite outcome and create indifference towards performance contracting

which will lead to staff preferring to maintain the status quo hence being a barrier to introduction of new technologies in the ministry as dictated by rapidly changing global environment. The public sector in Kenya has embraced performance contracting specifically in government departments and state corporations. Positive perception of employees towards performance contracts is key towards the success of performance contracting and performance management.

Previous studies undertaken on perception have focused on other government corporations and parastatals, and have not addressed the perception of civil servants in particular, for instance Kachero (2006) conducted a study on employee perception of staff promotion process: a case study of university of Nairobi and Kiboi (2006) undertook a study on management perception of performance contracting in state corporations. None of these studies focused on civil servants perception of performance contracting, on any of these diverse ministries in Kenya. This study addresses this knowledge gap.

1.3 Objectives of the Study

1. To determine the perception of staff towards performance contracting in the Ministry of Trade.
2. To establish the factors that influence perception of staff the in Ministry of Trade towards performance contracting.

1.4 Significance of the Study

The study helps the public services in appreciating performance contracting and its contribution to civil servants' performance.

- i. It also shows the implication of perception of individual civil servants towards performance contracting in various government ministries in general.
- ii. It assists in identification of factors affecting perception by staff of the Ministry of Trade towards performance contracting guide those involved in policy making when implementing performance contracting in the various other Government ministries.
- iii. The study also offers an opportunity for review of performance contracting within the civil service. It also offers a window for possible amendments and improvements of performance contracting. In addition, the study broadens the knowledge on performance based contracting and provides a basis for further research on the factors perceived by civil servants as inhibiting the success of performance contracting in the civil service.

CHAPTER TWO : LITERATURE REVIEW

2.1 Perception

According to Hawkins (1989), perception involves the process of exposure, attention and interpretation of information or stimuli. What an individual perceives depends on their characteristics, size and intensity of the stimuli and their exposure to the stimuli. Attention is a fundamental component of perception that is often used to differentiate higher – order cognitive processes from those that are purely sensory. Individual differences in abilities and cognitive styles are also important in perception.

Perception encompasses all processes; with the recognition, transformation and organization of sensory information, Charterrete and Friedman (1978). Harold (1978) defines perception as a process through which an individual gives meaning to the environment and perceive different things about the same situation. The cognitive approach which focuses an individual's mental process recognizes that firms or rather their managers perceive the environment differently and imperfectly according to Fahey and Nayaranan (1989). Consequently, this approach emphasizes the need to deepen our understanding of managers' mental schemas if we are to understand corporate behaviour and firm's strategic processes more fully.

Managers do form perceptions of peoples performance as indeed they must, most administrators are charged with rendering some periodic formal appraisal of subordinates performance Bacon, B. (1986). The managers evaluation of subordinates performance whether official or not has important consequences. Many of the manager's actions

towards the employee depend on it: rewards, salary recommendations and task assignments. The employees reputation and career are at stake. Therefore the processes by which managers perceive subordinates performance deserves serious study. Field Man (1981) drawing from social psychological theory and research has shown how perception of performance begins with categorizing of subordinates according to prototypes. Managers have rough prototypes for workers just as we have ready – made categories for persons we encounter socially.

The characteristics of a perceiver and the perceived suggest the extreme complexity of social perception. Organizational participants must realize that their perception of another person is greatly influenced by their own characteristics and the characteristics of the other person Berkeley (1985). Participants in formal organizations constantly perceive one another. There are numerous complex factors which enter into such social perception but the primary factors are found in the psychological processes and personality.

Attribution refers simply to how a person explains the cause of another's or her own behavior. It is a process by which people draw conclusions about the factors that influence one another's behavior. Applied to social perception, there are two types of attributions that people make: dispositional attribution which ascribe a person's behavior to internal factors such as personality traits, motivation or ability and situational attributions which attributes a persons behavior to external factors such as equipment or social influence from others (Bacon, 1986). In recent years, attribution theories have

played an increasingly important role and is also recognized as influencing perception. It has been found to affect evaluation of others performance. Applied to perception attribution is the search for causes (attributes) in making interpretation of other persons. For example, what a manager perceives as the cause of a subordinates behavior will affect the managers perception of, and resulting behavior towards, the subordinate.

The other area of social perception that are especially relevant to understanding organizational behavior are stereo typing. Stereo-type refers to the tendency to perceive another person as belonging to a single class or category. Stereo – typing has become a frequently used term to describe perceptual errors. It is used in analyzing prejudice. Stereotyping may attribute favourable or unfavourable traits to the persons being perceived. According to Mason (1985), Halo effect in social perception in social perception is very similar to stereotyping. Whereas in stereotyping, the person is perceived according to a single category, under the halo effect, the person is perceived on one trait. Halo effect is often discussed in appraisal. When a rater makes an error in judging a persons' total personality or performance on the basis of a single trait such as intelligence, appearance and dependability (Bacon, 1986). Whatever the single trait is, it may override all other traits in forming perception of a person.

2.2 Measuring Perception

Guttman's Scalegram analysis is another technique which was designed by sociologist Louis Guttman in 1950. It aims at determining the underlying order within a series of questions by means of obtaining dichotomous responses i.e. the respondent is required to

answer “yes” or “No” to each question. Scalegram analysis is a very useful technique for examining small shifts or change in perceptions and while such scales do not have equal appearing intervals, they are generally reliable (Williams, 1997). Thurstone scale technique is another technique which was designed in 1929. It requires the collection of as many statements as possible about the issue towards which perceptions are to be measured.

According to Luck and Rubin (2002), measurement is the determination of the dimensions. Tull and Hawkins (2002) define measurement as the assignment of numbers to characteristics of the objects, persons, states or events according to rules. They explain further that it does not necessarily mean numbers that can be added, subtracted, divided or multiplied, rather it means that numbers are used as symbols to represent certain characteristics of the object. Green. Tull and Alboum (2003) argue that behavioural scientists have proposed techniques whose primary purpose is to scale respondents along some attitude continuum of interest. Three of the better known procedures for doing this are summated scale or Likert scale, the Q-sort technique and the differential scale. Mugenda (1999) content that the rating scales are used to measure perception, attitudes, values and behaviour. They further explain that the rating scales consist of numbers and descriptions which are used to rate or rank the subjective and intangible components in research. The numerical scale helps to minimize the subjectivity and makes it possible to use quantitative analysis. The most common used rating scale is the Likert or summated scale which are originally proposed by a psychological, Rensis Likert, which requires a respondent to indicate the degree of agreement or disagreement with each of a series of

statements related to attitudes object, Tull and Hawkins (2002).

2.3 Performance Management

Performance management is a management process designed to link organizations objectives with those of individuals, in such a way as to ensure that both individual and corporate objectives are as far as possible met. Armstrong (2003) defines performance management as a strategic and integrated approach to delivering sustained success to organizations by improving the performance of the people who work in them and by developing the capabilities of teams and individual contributors.

It has been stated with reasonable justification, that human capital is the most important resource in an organization Immelt (2003). The relationship between the employer and the employee involves exchange of skills and experience for reward in salaries or wages. Armstrong (2001) advances the view that the principal aim of performance management should be to support attainment of the organization's strategic objectives by ensuring the availability of a skilled, competent, committed and well motivated workforce.

Bandaranayake (2001) views performance management as the development of individuals, usually members with competencies and commitments, working towards the achievement of shared meaningful objectives within an organization that supports and encourages their achievement. The author notes that the process of performance management relates to the goals and targets set by organization and the subsequent measurement of outputs and outcomes by means of performance indicators. Heckett

(1998) states that performance management involves clear definition of goals and objectives for the team or individuals, and performance coaching. Some form of performance review and tracking to chart progress and record achievement are key stages leading to comprehensive performance and development plans. Grahams and Bannet (1998) add that performance management involves the integration of employee development with result based assessment. It encompasses appraisal, objective setting, appropriate training programmes and performance related pay. From the foregoing it can be inferred that performance management entails all human managerial activities for initiating and tracking performance of an organization through its staff. Therefore the purpose of performance management is to improve performance by creating accountability to goals and objectives.

According to Williams (1998) performance management is divided into three perspectives: system of managing organizational performance, system of managing employee performance and system of integrating the management of organizational and employee performance. Williams (1998) further notes that managing of organizational performance involves planning and reviewing. The use of this model is the determination of, and implementation of organization's strategy through organization's structure, technology, business systems procedures among others. As a system for managing employee's performances, performance management involves planning managing and appraisal.

Performance management is seen as integrating the organizational and employee performance and combines the above two perspectives. It recognizes that employees' performance takes place within the organizational goals and therefore recognizes three levels of performances: Organizational, process / function and team / individuals. Hence the aim of performance management is the development of staff appraisal; improve performance through linking employees' individual's objectives to the firm's strategies. Armstrong (2001) proposes that performance management could be evaluated using scales which can either be behavioural with examples of good, average or inadequate or graphic which present points along a continuum alphabetically (a, d, c, etc), numerically (1,2,3) or by means of initials.

2.4 Performance Management Process

Performance contracts define the expectations, the result to be achieved, and the competences required to attain these results. They form the basis for development, assessment and feedback in the performance management process. They define expectations in the form of raw profile that sets out role requirements in terms of key result areas for effective performance. The role profile provides the basis for agreeing objectives and assessing the level of competency reached. The performance agreement incorporates any performance improvement plans that may be necessary and personal development plan. It describes what individuals are expected to do but also indicate what support they will receive from their managers (Guest, 2006).

Personal development plan is another process of performance management. It sets out the actions people intend to take to develop themselves in order to extend their knowledge and skills, increase their level of competence and to improve their performance in specified areas. A personal development plan provides a learning action plan for which individuals are responsible with the support of their managers and the organization. It may include formal training but more importantly, will incorporate a wider set of learning and development activities such as self managed learning, coaching, mentoring, project work, job enlargement and job enrichment. The development rewards the actions agreed to improve performance and develop knowledge skills and capabilities. It is likely to focus on development in the current job to improve the ability to perform it well and also, importantly, to enable individuals to take on wider responsibilities, extending their capacity to undertake a broader role. The plan therefore contributes to the achievement of a policy of continuous development that is predicted on belief that everyone is capable of learning more and doing better in their jobs (Burnes, 2004).

The management of performance throughout the year is another performance management process. This is the stage in which action is taken to implement the performance contract and personal development plan. It includes continuous process to provide feedback on performance, conducting informal progress reviews, update objectives and where necessary, dealing with performance problems and counseling. It is perhaps one of the most important concepts of performances management in that it is a continuous process that reflects normal good management practices of setting direction, monitoring and measuring performance and taking action accordingly (Guest, 2006).

Performance review is a formal evaluation stage when a review of performance over a period takes place, covering achievements, progress and problems as the basis for a revised performance contract and personal development plan. It can also lead to performance rating. Although performance management is a continuous process, it is still necessary to have a formal review once or twice yearly. This provides total point for consideration of key performance and development issues. This performance review meeting is the means through which five primary performance management elements of agreement, feedback, positive reinforcement and dialogue can be put to good use. The review should be rooted in reality of the employee's performance. It is concrete, not abstract and it allows managers and individuals to take positive look together at how performance can become better in the future and how any problems in meeting performance standards and achieving objectives can be resolved. Individuals should be asked to assess their own performance and become active agent for change in improving their results. Managers should be encouraged to adopt their proper enabling role: coaching and providing support and guidance (Dessler, 1997).

Perception is a process by which individuals organize and interpret their sensing impressions, in order to give meaning to their environment. However, what one perceives, can be substantially different from objective reality. There need not be, but there is often disagreement and it is possible that all employees in a firm may view it as a great place to work favorable working conditions, interesting job assignments, good pay, excellent benefits, an understanding and responsible management; but as most of us know it is very unusual to find such agreements. In other words, perception involves

receiving stimuli, organizing the stimuli and translating or interpreting the organized stimuli so as to influence behaviour and form attitudes (Cole, 2001).

2.5 Performance Contracting

Performance management is a management process designed to link organizations objectives with those of individuals in such a way as to ensure that both individual and corporate objectives are as far as possible met. Armstrong (1999) defines performance management as a strategic and integrated approach to organizations by improving the performance of the people who work in them by developing the capabilities of teams and individuals contributors. Today's environment demands institutions that are extremely flexible and adoptable. It demands institutions that deliver high quality goods and services and demands them to be responsive to customer needs, offering services that lead by persuasion and incentives rather than command, institutions that give their stakeholders a sense of meaning and control: over ownership. All high performance organizations whether public or private are, and must be interested in developing effective performance management systems, since it's only through such systems that they can remain high-performing and competitive organizations (NPR 1997).

Mann (1995) and GOK (2005a) trace the evolution of performance contracting to France in the 1970s when the French prime minister commissioned a committee headed by Simon Nora to investigate relations between public enterprises and the ministers. The concept was thereafter introduced in Franco-phone Africa in the 1980s in the national railway in Senegal,. Latin America and Asian countries followed later in the same

decade. Trivedi (2005) and GOK (2005a) observe that there are generally two types of performance contracts namely: - French System and signaling system

French System is where performance contracts do not allocate weights to targets. It has distinction between targets in terms of emphasis (by weighing them differently) and as such performance evaluation is affected by a high degree of subjectivity. It can only point out whether a particular target was met or not which creates great difficulty for making an overall judgment regarding agency performance. It is practiced in France, China, Ivory Coast, Benin and U.K. Signaling System is based on premise that public enterprise management should be appropriately guided to aim at improving real productivity and its effects acknowledge and rewarded by an incentive system. It allocates weights. It adopts a system of "five points" scale and "criteria weight" which ultimately results in calculation of "composite score" or an index of performance of the enterprise. It is practiced in Pakistan, Korea, Philippines India and Gambia.(OECD, 1999)

The dominant economic view of performance based contracts essentially draws from the theory of agency costs that arise due to separation of ownership and control of large organizations. In typical agency framework the assumption is that there is mismatch between the interest of owners and that of management who run the day to day operations of the organization. A performance contract addresses economic, social or other tasks that an agency has to discharge for economic performance or for other desired results (OECD 1999). A widely quoted view of performance contracts is that they are negotiated agreements between governments as owners of public enterprise and the enterprise itself

in which the intentions, obligations and responsibilities of the two parties are freely negotiated and then clearly set out. It is a contract between the owner of an enterprise on one side and the management of the enterprise on the other, setting out certain targets/results to be achieved in a given time frame. It also enumerates the mutual obligations of the two parties in achieving the targets set in the contract (Mburugu 2005; Mann 1995; GOK 2005; Nellis (1989).

According to Organization of Economic Cooperation Development, (1999), performance contract basically comprises two major components namely; determination of mutually agreed performance targets and the review and evaluation of periodic and terminal performance. Organization of Economic Cooperation Development, (1999) argues further that performance contracting is but one element of broader public sector reform aimed at improving efficiency and effectiveness of public enterprises, while reducing total costs. It looks at performance contracts as a range of management instruments used to define responsibilities and expectations between parties to achieve mutually agreed results. National Performance Review, (1999) relates the performance contracts otherwise known as agreements in USA to performance based management which focuses on outcomes that support short and long term objectives by providing a systematic process of defining the job, the behaviours and the measurement criteria critical to the process. It is simply a performance based contract which the principal defines its objectives and lets the agency decide how best to achieve/meet them.

Shirley and Xu (1997) argues that performance contracting assumes that government's objectives can be maximized and performance improved by setting targets that take into account the constraints placed on managers. For this to occur though, they argue the principals must be willing to explicitly state their objectives, assign to them priorities and weights, translate them into performance improvement targets, provide incentives to meet those targets and credibly signal their commitment contract. G.O.K. (2005a) concludes that the fundamental principle of performance contracting is devolved management style with emphasis on outcomes rather than processes. OECD (1999) observes that performance contract is another management tool that ensures correlation between planning and implementation. Coordination between various government agencies and enabling public policy environment for other downstream reforms and a fair and accurate impression about public enterprise performance.

The rationale of performance contracting varies from country to country. The widely accepted rationale for performance contracts in public enterprises is that they have multiple objectives and multiple principals. Performance contracts, it is argued would provide the public enterprises with the management technique to manage them and therefore remedy the situation according to Government of Kenya. (2005b). The growing popularity towards performance contracting can be traced to the strong persuasive influence from bilateral agencies that advocate the use of this concept as an important element of public enterprise and sector reforms according to Organization of Economic Cooperation (1999). It further observes that public enterprises may pursue certain social and non-commercial goals affecting its finances which the performance contracts clarify

early with the principal, public enterprises, making losses may have tools which may indicate effort put and success achieved by the management in improving its operations; a mechanism to smooth the public enterprise government interface and increase the autonomy of the enterprise; advocated as an alternative to privatization of public enterprises which are financially viable.

2.6 Factors influencing employee perception

A number of factors operate to shape and sometimes distort perception. These factors can reside in the perceiver, in the object or target being perceived, or in the context of the situation in which perception is made. When an individual looks at a target and attempts to interpret what or she sees, that interpretation is heavily influenced by the personal characteristics of the individual perceiver. Personal characteristics that affect perception include a person's attitudes, personality, motives, interests, past experiences and expectations. Personal characteristics are one of the factors influencing perception by Ministry of Trade staff towards performance contracting.

Previous research show that if employees perceive that the organization does not treat them fairly, they are not likely to engage in behaviour that would be beneficial to the organization Moorman (1991) and less likely to be committed to the organization. Employees' attitudes are affected by their perception of fairness. The author also found out that there exists casual relationship between perception and organization. The author also found out that there exist casual relationship between perception and organizational justice and organizational citizenship behaviours.

Kosek and Lobell (1996) note that by giving attention to fairness, organizations removes performance of an individual from being personal to one that looks inter-group and institutional behaviours. Bradly (2006) notes that if employees perceive low level of justice, favoritism and nepotism, they change their behaviour contrary to what is beneficial to the organization. Hackett (1998) agrees that employees who perceived that decisions on training needs promotion among others are not linked to their performance, then the system will not win the trust of people it is expected to serve.

Harris et al (2004) note that perceived unfairness is determined by how a particular event reflects on widely held beliefs and norms about social responsibility. They further argue that people hold certain expectancies as to who the perpetrators and the victims of unfairness are, and these expectancies are used to determine judgements of the unfairness. Nzuve (2007) has indicated that people's behaviours is based on their perception of the reality. If the contribution of the employees in the organization is not appreciated, they will develop negative perception, resulting in inappropriate behaviour and ineffective performance.

According to Robbins (2003), a number of factors operate to shape perception; these factors can reside in the perceiver, in an object or target being perceived or in the context of situation in which perception is made. Perception is influenced by internal and external factors leading to people to see some perceived objects or persons differently according to Nzuve (1999). The internal factors are attitudes, motives, interests, expectancies and experiences. The external factors include size, intensity, contrast, repetition, motions,

novelty and familiarity.

Perception is psychological and can be measured by qualitative factors such as people's attitudes, emotions, previous experiences and their needs. People's attitudes have a powerful influence upon what they pay attention to, what they remember and how they interpret information. Arnold and Fieldman (1986). People's perception of organizations is strongly influenced by their attitude towards the organization. Employees' emotional state strongly influences perception process. When staff is highly agitated, frustrated and angry their perceptual process becomes impaired. People's previous experiences with similar circumstances do also influence perception. The authors add that experiences with similar circumstances do also influence perception. They also add that existence of stress impedes the person's capability process and the way they perceive information they receive. Arnold and Fieldman (1986) further state that employees may have been consumed by receiving certain information at certain times or under certain circumstances, which distort perception, resulting in behaviour that is inappropriate from the organization's stand point.

According to Luthans (1992) people will select out a stimuli or situations from the environment that appeals to, and are compatible with, their learning, motivation and with their personality. He further argues that perception begins when a person is confronted with a stimulus or a situation. This confrontation may be with the total physical and socio- cultural environment. In addition to the situation and person's interaction are the internal cognitive processes of registration, interpretation and feedback.

CHAPTER THREE : RESEARCH METHODOLOGY

3.1 Research Design

The research design is a case study. A case study is deemed appropriate as it involves in depth investigation of a phenomenon such as perception of staff. According to Kothari (1990), a case study involves a careful and complete examination of a social unit, institution, family, cultural group or an entire community and embrace depth rather than breath of the study.

3.2 Population

The population consisted of all staff of the Ministry of Trade which are distributed among (10) departments. According to the Ministry's 2008/09, recurrent estimates, there were six hundred and sixteen (616) staff distributed among these departments.

3.3 Data Collection instrument and Procedure

Data was collected from the employees of ministry of Trade in Nairobi. The targeted respondents were one hundred and eighty (180) staff from all the ten departments based in Nairobi as shown in table 3 below:-

Table 3: Distribution of staff by departments and the target respondents

Department	Number Of Staff	Target Respondents
General Administration	73	21
Central Planning Unit	8	2
Human Resource Management	32	9
Accounts	19	6
Regional Integration	10	3
Business Premises and Rent Tribunal	20	6
Internal Trade	214	63
Kenya Institute of Business Training	44	13
External trade	62	18
Weights and measures	134	39
Total	616	180

Source: 2008/09 Recurrent estimates for Ministry of Trade page 607.

The target respondents were selected using proportionate simple random sampling. Data was collected using semi-structured questionnaire.

3.4 Data Analysis

Data in section A of the questionnaire was analyzed using descriptive statistics such as mean, frequencies, tables and percentages on the variables under the study. Data in section B and C of the questionnaire was analyzed using mean scores and standard deviations to find out factors that influence perception of staff towards performance contracting. The questionnaire was administered through the “drop and pick method”.

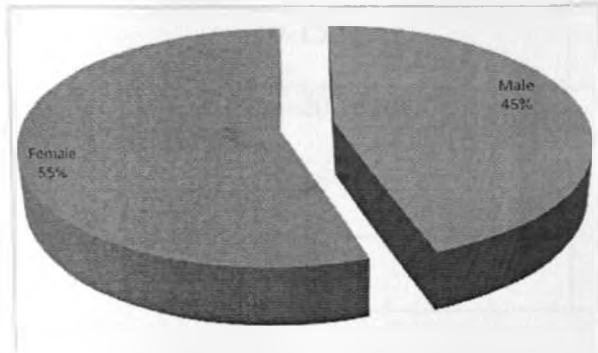
The questionnaire was divided into three sections. Section A sought to establish the background information, section B sought to establish the perception of staff towards performance contracting and section C sought to establish factors influencing the staff towards performance contracting.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Demographic characteristics of the respondents

The demographic characteristics of the respondents are presented below:

Figure 4.1: Gender of the respondent



According to the findings, 55% of the respondents were female while 45% were male. This indicates that majority of the respondents were females which points to the Ministry being gender sensitive in its recruitment and selection in line with the Millennium Development Goals (MDGs).

Table 4.1: Job Grade of Respondents

Job Level	Frequency
Senior	10
Middle	35
Lower	55
Total	100

According to the study findings 55% of the respondents were of the lower level, 35% were middle level and 10% were senior staff. majority of the respondents were the lower level employees.

Table 4.2: Period of service

Period Service	Frequency
Less than 5 years	0
5-10 years	20
10-15 years	50
15-20 years	15
20-25 years	15
Total	100

Findings of the study indicated that 50% of the respondents had worked in the Ministry for a period of 10 to 15 years, 20% of the respondents had worked for 5-10 years, 15% had worked for 15 to 20 years and another 15% had worked for 20-25 years. The findings showed that 70% of the respondents had worked in the Ministry for 5-15 years and all the respondents were employed on permanent terms of service.

Table 4.3: Level of education

Level of education	Frequency
Primary Education	0
Secondary Education	15
College Education	45
University Education	40
Total	100

From the study, 45% of the respondents had college education as their highest level of education, 40% had university education while only 15% had secondary education. This

shows that 85% of employees in the Ministry of Trade had at least college education, which could possibly enhance their understanding of performance contracting.

4.2 Perception of staff on performance contracting

According to the findings salary disparities, empowering employees and senior management commitment were indicated by staff as key determining factors of their perception towards performance contracting each with a mean score of 4.6 respectively. The respondents also indicate that agreed that creating organizational structures that enhances openness and flexibility, encouraging personal initiatives, having mutual support at all levels, further improvements are necessary to enhance effectiveness of performance contracting, appreciation of staff needs and expectations, allocating some specific time to discuss performance contracting and training and development of employees were important factors affecting their perception towards performance contracting. These factors are discussed below:

Salary disparity can be explained as a situation where the salary gap between the highest paid staff and the lowest is too wide. According to Morman (1991), employee's attitudes are affected by their perception of fairness. The ministry of Trade staffs feel that there is no fairness or equity in salaries across all cadres of staff. This finding confirms the results of previous studies. Morman, (1991).

According to Holden, L. (1997) employees like being involved in matters that directly concern their day to day activities. According to, OECD (1999), performance contracting

is a management tool used to define responsibilities and expectations between parties to achieve mutually agreed results. The finding above concurs with these observations.

The respondents agreed that senior management commitment is very important in determining their perception towards performance contracting with a mean of 4.55. Wood and De Menezes (1998) identifies high commitment management as linked to organizational performance. This therefore confirms the finding above that senior management commitment is very important in determining perception of staff towards performance contracting.

Creating organizational structures that enhance openness and flexibility was cited by respondents as important in determining their perception towards performance contracting at a mean of 4.40. Moorman, (1991) found out that there exist casual relationship between perception and organizational justice. Enhancement of organizational openness therefore concurs with the above finding. The respondents agreed that mutual support at all levels of the ministry was important in determining perception towards performance contracting by staff.

According to Pfeffer (1998) extensive use of self managed teams are linked to organizational performance. The finding therefore concurs with the observation in that it emphasizes the fact that senior, middle and lower level staff of the ministry should mutually support one another with a view of realizing the objective of performance contracting in their ministry.

The respondents also agreed that allocating more time to discuss performance contracting is important. The respondents feel that more time should be allocated for them to discuss performance contracting. According to Holden L. (1997) employees like being involved. They appreciate having their opinions listened to and acted upon, particularly in matters affecting their day to day activities. This observation therefore concurs with the respondents findings.

The respondents also agreed that training and development of employees is important in determining their perception towards performance contracting. This finding is confirmed by Pfeffer (1998) who identified high spending on training as linked to organizational performance. The finding therefore points to the fact that the ministry should carry out seminars and workshops amongst its entire staff with a view of sensitizing them on the importance of performance contracting in the ministry.

4.3 Factors influencing perception of staff towards performance contracting

According to the findings, staff participation in setting performance targets or parameters was indicated by the respondents as one of the factors which to determined their perception towards performance contracting at a mean of 4.5.

Staff cooperation towards achieving objectives of performance contracting, commitment by senior management, adequate sensitization of performance contracting from the onset, morale of staff, adequate working tools, working environment, annual work plan, staff qualification and competence, teamwork among staff and process of staff appraisal were

agreed by respondents as important as their means 4.4, 4.3 and 4.2, 4.0, 3.6 respectively. Employees like being involved in day to day affairs of the organisation they work in. They appreciate having their opinions listened to and acted upon, particularly in matters that directly concern their day to day activities, Holden, L. (1997). Participation, according to the respondents influences their perception towards performance contracting with a mean score of 4.5 and therefore confirms that staff participation, in this case, setting performance targets or parameters is important as these targets affect their day to day activities in the ministry.

According to the respondents, staff cooperation towards achieving objectives of performance contracting influences them, with a mean of (4.45). The finding therefore points to the fact that there should be cooperation of staff at all levels if the objective for which performance contracting was intended to achieve is fulfilled. Adequate sensitization of Performance contracting from the onset according to the respondents influence then to a large extent on perception towards Performance contracting with a mean of 4.3. These points to the fact that the staff should be sensitized regarding all the details that are required from them on performance contracting.

Commitment by senior management, according to the respondents also influences their perception to a large extent towards performance contracting. Wood and de menezes, (1998) identify high commitment management as linked to organizational performance. the respondents perception towards Performance Contracting is therefore supported by this observation.

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Morale of staff was also cited by the respondents as influencing their perception towards performance contracting to a large extent at a mean of (4.12). According to Moorman (1991) if employees perceive that their organization does not treat them fairly, they are not likely to engage in behavior that would be beneficial to the organization. Employees' attitudes are affected by their perception of fairness. The respondents' observation on staff morale is therefore confirmed by the observation.

Adequacy of working tools also affected their perception towards performance contracting to a large extent. Luthans (1992) argue that perception begins when a person is confronted with a stimulus or a situation. This argument concurs with the above finding on factors influencing perception of staff towards performance contracting.

According to the respondents, teamwork among staff was cited as influencing their perception towards performance contracting to a large extent. According to Wood and de Menezes (1998), high commitment management and teamwork was identified as linked to organizational performance. This argument therefore concurs with the above finding on teamwork among staff as influencing perception towards performance contracting.

The process of annual staff appraisal according to the respondents was felt to influence perception of staff towards performance contracting to a large extent. According to Bacon B. (2007), if contributions of employees in the organization is not appreciated, they will develop negative perception resulting inappropriate behavior and ineffective performance. This argument therefore concurs with the above finding as having negative perception on performance contracting.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Findings

According to the findings, the respondents strongly agreed that salary disparity, empowering employees and senior management commitment Creating organizational structure that enhances openness and flexibility, encouraging personal initiatives, further improvements to enhance effectiveness of performance contracting appreciation of staff needs and training and development contributed to their negative perception towards performance contracting.

Further, according to the respondents, staff participation in setting performance targets or parameters was to a very large extent cited as one of the factors influencing their perception towards performance contracting as its mean drew closer to (5.0) at 4.53. Staff cooperation towards achieving objectives of performance contracting, commitment by senior management, adequate sensitization of performance contracting from the onset, morale of staff, adequate working tools, working environment, annual work plan, staff qualification and competence, teamwork among staff and process of staff appraisal were agreed by the respondents as factors which contributed to their negative perception towards performance contracting with each a means of 4.0.

5.2 Conclusion

Based on the above findings, it can be concluded that the negative perception of staff towards performance contracting was mainly contributed by the following:

Salary disparity, Empowering of employees, Senior management commitment, Creating

organizational structure that enhances openness and flexibility, Encouraging personal initiatives, Further improvements to enhance effectiveness of performance contracting, Appreciation of staff needs, Training and development

The following factors contributed to their negative perception of staff towards performance contracting:-Staff participation in setting performance targets, Staff cooperation towards achieving objectives of performance contracting and Commitment by senior management

Adequate sensitization of performance contracting from the onset, Morale of staff, Adequate working tools, Working environment tools, Annual work plan, Staff qualification and competence, Teamwork among staff and Process of appraisal.

5.3 Recommendations

The ministry should address the issue of salary disparity which contributed to negative perception of staff towards performance contracting by liaising with the Government department such as Directorate of Personnel Management (DPM), Public Service Commission (PSC) and the Civil Service Remuneration Commission with a view of ensuring that the wide salary gap which currently exist between the highest and the lowest civil servants is reduced. The ministry should also strive to empower its employees by providing them with adequate working tools and conducive environment. The staff should also be encouraged to initiate ideas which will go a long way in making them appreciate performance contracting in the ministry.

The ministry should adequately cater for staff needs which include social, psychological

and economic needs. Staff training should also be regularly carried as it negatively contributed to negative perception of staff towards Performance Contracting. Training should not be seen to benefit only senior staff but should also benefit all other staff equally.

Senior management commitment as having contributed to negative perception of staff towards performance contracting should be addressed by the ministry by ensuring that top management including the minister, the permanent secretary and other senior staff should show total commitment to the implementation of performance contracting. The ministry should address the issue of staff participation in setting performance targets as this was one of the factors that negatively influenced perception of staff towards performance contracting. This should be addressed by ensuring the staff of are cadres should as much as possible be involved in setting performance targets as they will be required to attain those targets which, they, themselves have participation in setting.

Staff cooperation with a view of achieving objectives of performance contracting should also be encouraged by the ministry. All staff irrespective of their job Grade should be encouraged to cooperate with one another in all aspects of their work.

The ministry should also carry out a wide sensitization programme amongst all its staff. The sensitization should be geared towards educating staff on the event of performance contracting and how it will improve the performance and the overall image of the ministry.

The other factor which also contributed to negative perception of staff towards performance contracting is staff morale. The ministry should address the morale issue such as: promotions of staff, improving the working environment, regular review of salary and other allowances and addressing other staff welfare such as medical scheme for both staff and their next of kin.

The ministry should also create good working environment which should be addressed by having adequate office space, making available working tools such as computers and also providing adequate safety tools within the ministry. The ministry should address the issue of teamwork amongst staff by ensuring that all members of staff should work as a team and not work in isolation. This will ensure that the objective for which performance contracting was intended to achieve is met.

Staff Appraisal Process as a factor which negatively influenced perception of staff towards performance contracting should also be addressed by ensuring that the yearly Staff Appraisal is done objectively and not be seen by staff to have been done in a biased manner.

5.4 Suggestions for further studies

The study recommends that further studies be conducted on effectiveness on performance contracting in enhancing the performance of Ministries and Government Departments in Kenya.

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APPENDICES

APPENDIX 1: QUESTIONNAIRE

The questionnaire seeks to collect information on the perception of staff of ministry of Trade towards performance contracting.

SECTION A: Details of Staff

Background Information

1. Position in the Ministry of Trade.
2. Department
3. What is your gender
 - a) Male
 - b) Female
4. Please indicate your job level
 - a) Senior staff
 - b) Middle level staff
 - c) Lower level staff
5. Period of service in the ministry
 - a) Less than 5 years
 - b) 5 – 10 years
 - c) 10 – 15 years

d) 15 – 20 years []

e) 20 – 25 years []

f) More than 25 years []

6. Please indicate your terms if employment

a) Permanent []

b) Contract []

7. What is your highest academic qualification (Please tick as appropriate)

a) Primary education []

b) Secondary education []

c) College education []

d) University education []

Any other, please specify.....

SECTION B: Perception

This section seeks to establish the perception of staff of Ministry of Trade towards performance contracting.

1) In the 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 the 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)

Statement	1	2	3	4	5
The ministry attaches much importance to performance contracting.					
The introduction of performance contracting has brought much freedom in the performance of duties in the ministry of trade.					
Ministry is very successful in implementing performance contracting.					
Top management communicates very effectively to staff on performance contracting.					
Feedback mechanism in the administration of performance contracting is very effective.					
Ministry capacity to achieve its objectives has greatly improved after the introduction of performance contracting.					
There is adequate budget allocation to enable you to achieve the self targets					
Further improvements are necessary to enhance effectiveness of performance contracting in the organization					
Allocating some specific time to discuss performance contracting					
Training and development of employees of the ministry of trade					
Creating organization structures that enhances openness and flexibility					
Salary disparity affects performance					
Introduction of performance contracting has led to increased performance					
Appreciation of the staff needs and expectations					
Identifying cost saving activities and opportunities					
Encouraging personal initiatives (risk taking rather than risk avoidance)					
Having mutual support and trust at all levels of the ministry.					
Senior management commitment					
Empowering employees in their jobs					

SECTION C: Factors influencing Perception

The section will seek to find out factors that influence perception of the Ministry of Trade staff towards performance contracting.

Please put a tick in the box that represents your feelings. A five point Likert Scale will be used to describe the extent of the factors that influence the perception of staff towards performance contracting.

Scale:

1 = Least extent 2 = Less extent

3 = Moderate extent 4 = Large extent

5 = Very large extent

Statement	1	2	3	4	5
Morale of staff					
Adequate sensitization of performance contracting from the onset					
Staff participation in setting performance targets / parameters					
Process of staff appraisal annually (objectivity)					
Working tools or facilities whether they are adequate					
Annual work plan for all staff (existence)					
Commitment by senior management					
Staff cooperation towards achieving objectives of performance contracting					
Working environment					
Teamwork among staff					
Staff qualification and competence (availability)					
Any other (please specify).....					
.....					
.....					
.....					

THANK YOU.