

**MANAGEMENT PERCEPTION OF THE INFLUENCE OF  
PERFORMANCE CONTRACTING ON PERFORMANCE OF  
KENYA REINSURANCE CORPORATION LIMITED**

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## DECLARATION

This research project is my original work and has not been presented for award of a degree in any other university or institution for any other purpose.

Signed.....

Date.....

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

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## **DEDICATION**

I dedicate this work to my son Adrian Inyangala, who most of the time missed out on motherly love, while I was away studying in the evening and staying late at night. I also dedicate this project to my parents Dr. and Mrs Inyangala and my siblings Josephine, Rose and Gladys, who offered me unconditional love and support throughout the course of my studies.

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## **ABSTRACT**

Performance contract is a freely negotiated written contract between the government as owners and managers of the public entity as agents of the government to achieve agreed results within a given time period. The major focus for performance contracting is attainment of results. It is largely perceived that implementation of performance contracting has led to significant improvements in the performance of the public sector which has led to its adoption by many governments around the world including the Kenyan government. The general objective of this study was to establish managements' perception of the contribution of performance contracting to performance of Kenya Reinsurance Corporation Limited as well as the factors that influence their perception. The study adopted a census survey design where the population of study comprised of members of management at Kenya Reinsurance Corporation Limited. Primary data was sourced through a structured questionnaire. The study established that implementation of performance contracting has greatly enhanced the level of accountability for performance at the entity. Management of Kenya Reinsurance Corporation Limited strongly perceive that performance contracting has led to significant improvement in financial performance, service delivery and welfare enhancement with the highest influence being on financial performance at a perception index of 82% with service delivery having the lowest perception index at 76%. On the specific indicators, performance contracting is perceived to have the greatest influence on revenue growth and profitability with the least influence being on eradication of corruption, enhancing creativity and promoting faster service delivery. The factors identified to have the greatest influence on management's perception were identified as management and leadership in the performance contracting process, extensive communication in the process as well as being involved in establishing targets under performance contracting. Another factor that plays a significant role is the ranking system adopted by government which promotes increased commitment to the process. This study recommends that Kenya Reinsurance Corporation should consider reinforcing its service delivery indicators and targets under performance contracting specifically to promote faster service delivery and enhance innovation. This is essential given that the organization is in the insurance industry where competition is tilting more and more towards service delivery and innovation of new products. It is recommended that further studies be done on Management of other public sector entities in Kenya. Additional studies may also be done to establish the influence of personal traits on perception of the contribution of performance contracting to performance.



# CHAPTER ONE: INTRODUCTION

## 1.1. Background of the Study

In a rapidly changing business environment, organisations are forced to plan and allocate scarce resources to the most viable projects in order to develop and sustain a competitive advantage (Ahmad & Idris, 2008). Strategic management has emerged as a key practice in modern day organisation to facilitate this process. Strategic management thus provides overall direction to an enterprise and involves three critical activities that include specifying an organisation's objectives in light of the scarce resources or simply strategy formulation, developing and implementing plans to achieve these objectives or strategy implementation and obtaining feedback on the level of attainment of these goals also known as strategy evaluation (David, 2005).

Performance contracting complements the strategic management process by providing a tool to evaluate performance. Performance contracting is used by governments the world over, in a bid to emulate private sector's strategic planning approach of setting priorities, allocating scarce resources in a changing environment and evaluating performance (Dusenbury & Vinson, 2000). Therefore, while strategic planning looks ahead towards desired goals, performance measurement looks back at achievements. Combined, strategic planning and performance measurement form a circle a continuous process of governing for results (Dusenbury & Vinson, 2000).

Result Based Management (RBM) theories under which performance contracting is anchored, generally emphasize measurement of outcomes or results to enhance organisational performance. One such theory is the goal setting theory which

demonstrated that clear goals and appropriate feedback motivate employees to work toward a goal which, in turn, improves performance. However, for goals to be motivating they need to be clear, moderately challenging in view of the task and should foster commitment (Locke & Latham, 2002). Therefore, it is evident that to attain better results, there is need for clarification of objectives which in turn calls for involvement of the employees as implementers of the goals. Despite this, human perception plays a critical role in day to day management decisions and therefore has an impact on performance. Perception is the process by which individuals organize and interpret their sensory impressions in order to give meaning to their environment (Robbins, 2005). Perception is what leads one to behave in a certain way. This implies that perception is personal in nature and can vary across individuals exposed to the same environment. Although the result based management theories advance that involvement of people in setting performance goals leads to better organisational performance, human perception may or may not conform to this conclusion.

Kenya Reinsurance Corporation Limited (Kenya Re) adopted performance contracting in 2004 when it was wholly by the government. Performance objectives are established for a given time period, usually one year and attainment of these objectives evaluated at the end of the period. Managers are assigned different performance areas of operation and are held accountable for performance in their respective areas. While it is widely perceived that performance contracting leads to better organisational performance in the public sector (National Customer Satisfaction Survey Report, 2009), implementation of performance contracting at Kenya Reinsurance was received with mixed reactions.

### **1.1.1. Concept of Performance Contracting**

Performance contract is a freely negotiated written contract between the government as owners and managers of the public entity as agents of the government to achieve agreed results within a given time period, usually one year (Obong'o 2009). Performance Contracting has also been defined as the range of management instruments used to define responsibilities and expectations between parties to achieve mutually agreed results (OECD, 1997). Given that Performance contracting is based on the Result Based Management (RBM) theories, performance contracting can also be seen as a participatory team based effort designed to achieve defined results by improving planning, programming, management efficiency, effectiveness, accountability and transparency (CIDA, 2001). The defining elements in the definitions above include that performance contracting is a mutual agreement between two parties to achieve predefined objectives and targets within a given time period.

In implementing performance contracts, the common issues being addressed include improvement of performance to deliver quality and timely services to citizens, improve productivity in order to maximise shareholder wealth, reduce or eliminate reliance on the exchequer and instil a sense of accountability and transparency in service delivery and utilization of resources (Kobia & Mohamed, 2006). Emphasis on performance management for delivery of results is undoubtedly influenced by the basic assumption of performance management which lies in its professed ability to unite the attention of institution members on a common objective and galvanize them towards the attainment of objectives (Balogun, 2003). Performance contracting therefore serves as a performance management tool by breaking down an organisation's broad strategic objectives into specific performance targets for a

specific period of time. Further to this, measurement criteria or key performance indicators are defined for each of these targets in quantitative or qualitative terms. At the end of the period, performance is evaluated against the key performance indicators and reported. In certain countries, public entities are ranked in order of merit on attainment of their objectives.

Performance contracting has largely been perceived to improve public sector performance by improving efficiency and effectiveness in service delivery (Kimathi, 2006). This has led to the adoption of this practice by many governments around the world. Despite, this implementation of performance contracting has been met with a number of challenges which include lack of a performance oriented culture in the public sector to enhance effectiveness of the program, resistance to introduction of the program in certain sectors such as judiciary, low feedback mechanism from the public on effectiveness of the program, leadership and management weaknesses in public institutions such as political influence in appointment of top management, rewards and sanctions are not adequately outlined as well as inadequate skills to manage the process which for instance compromises on standardisation of the process across all public institutions. (GOK, 2010). There has also been speculation that the implementers may not fully understand the concept and benefits of performance contracting or if they do, they have fundamental reasons for outright rejection of the idea (Oswago, 2005).

### **1.1.2. Management Perception**

Social perception is the process of interpreting information about another person (Nelson & Quick, 1997). This definition implies that perception is influenced by the amount information available to you and the extent to which you are able to correctly interpret the information have acquired. Hence, the same set of information presented to a different person may be interpreted differently due to different individual capacities.

Rao and Narayan (1998) emphasize that perception ranks among the most important cognitive factors of human behaviour or psychological mechanism that enable them to understand their environment. Perception therefore looks at how thought processes influence how we understand and interact with the world. Rao and Narayan further, draw attention to the fact that since there are no specific strategies for understanding perception of others, everyone appears to be left with his own inventiveness, innovative ability, sensitiveness and introspective skills to deal with perception. Perceptions are influenced by physical stimuli, stimuli in relation to the surrounding field and conditions of the individual. This means that perceptions can vary among different individuals exposed to the same reality (Kotler, Shallowitz & Stevens, 2008). Given that perception is personal in nature, management perception is as complex a concept as the number of people in the group. Therefore, Management perception in performance contracting may be influenced by factors such as context or environment in which they work in, their familiarity with the process of performance contracting and their personal characteristics (Rugut, 2012).

Performance contracts originated from the perception that the performance of the public sector had been consistently falling below the expectations of the Public. It was also largely perceived that significant benefits can be realised in the public sector with implementation of performance contracting. Given that the major focus of performance contracting is results, then there would be a paradigm shift in the public sector to enhance focus on results or outcomes.

### **1.1.3. Organisational Performance**

Organizational performance as an outcome variable is common within management research searching for causal explanations. Surprisingly, the definition ‘organizational performance’ is an open question with a few studies using a well-defined and structured, justified definition (Richard et al, 2009). In broad terms, organisational performance is the accumulated result of all the organization’s work processes and activities (Boddy, 2011). This implies that all of an organisation’s operations are actually geared towards attaining some particular objective. Albrecht (2011) defined Organisational performance in greater detail as the extent to which an organization achieves a set of pre-defined targets that are unique to its mission. These targets may be both objective and subjective. From the foregoing, it is evident that for organisational performance to occur there needs to be some mechanism for measurement of the extent to which an organisation has accomplished certain predefined objectives. In short, organizational performance is the most important criterion in evaluating organizations, their actions, and environments.

Organisational performance encompasses three specific areas of a firm's outcomes which include financial performance, market performance and shareholder return (Richard et al, 2009). However, this view tends to exclude broader aspects of organisational performance that include organisational effectiveness and efficiency. The implementation of balanced scorecards has increased the attention given the aspects of organizational efficiency and effectiveness. Although primarily used for internal management and control, balanced scorecards explicitly include measures of financial performance, customer outcomes, innovation and internal processes (Kaplan & Norton, 1996). This therefore implies that for organisation performance to be complete, the aspects of efficiency and effectiveness play a critical role. Organisational performance is influenced by a host of factors including leadership and management style, employee motivation and satisfaction levels, availability of facilities and tools such as computers and a conducive political legal environment. If the factors are implemented to their fullest, then the rate of success will be higher, however, if done haphazardly they will not lead to improved results and efficiency. Each includes regular recurring activities to established organisational goals, monitor progress towards the goals and make adjustments to achieve those goals more effectively and efficiently. Typically, these become integrated into the overall recurring management systems in the organisation as opposed to one time projects for change (Brown, 1996).

#### **1.1.4. Kenya Reinsurance Corporation Limited**

Kenya Reinsurance Corporation Limited (Kenya Re) was established in 1970, through an Act of Parliament, Cap 485. The core mandate of the Corporation was to offer reinsurance services aimed at increasing retention capacity within the country so as to

stem capital flight. At the time local insurance companies sought reinsurance from international reinsurers. Other objectives were to regulate the insurance industry, a function now handled by the Insurance Regulatory Authority (IRA), to develop local expertise in insurance and reinsurance fields. As the only Kenyan reinsurer, the Corporation enjoyed compulsory cessions at of a rate of 25% for each and every insurance policy written in the country, which was its only market.

In the mid 1980's and 1990's, Kenya Reinsurance was largely affected by most of the governance issues that were affecting other state owned enterprises at the time. The Corporation was overly reliant on the mandatory cessions to generate the bulk of its revenues, costs were escalating to unmanageable levels largely due to overstaffing, political interference in the management of the affairs of the Corporation especially in the appointment of directors among a host of other issues.

Following the government's parastatal reform program that began in 1994, a number of state owned entities were earmarked for privatisation including Kenya Reinsurance Corporation. The government thereby undertook several measures to prepare the Corporation for privatization. These measures included relaxation of laws to promote competition in the Reinsurance subsector. This saw entry of two new international reinsurers into the Kenyan market which included PTA Reinsurance and Africa Reinsurance Corporation. Both of these were regional reinsurers entitled to mandatory cessions to varying extents which implied that local insurance companies would now channel additional business to these reinsurers. Further to this, Kenya Re's mandatory cessions were reduced to 18% on treaty basis as opposed to the initial 25% cessions per policy written. As a result of increased competition with reduced revenue levels



for Kenya Re from mandatory cessions, Kenya Re intensified its marketing efforts in a bid to grow optional business in the Kenyan market as well as venturing to international markets in the year 2000. Additional measures were employed to make the Corporation attractive to investors which included incorporation under the Companies' Act in 1997, adoption of cost management measures through retrenchment, outsourcing of non-core functions and the subsequent adoption of performance contracting in 2004. The adoption of performance contracting was perceived by management as a strategic move in light of the fact that plans were underway to privatise the entity. The Corporation was eventually partially privatised in year 2007, through disposal of a 40% stake by the government through an Initial Public Offer at the then Nairobi Stock Exchange (NSE).

Following its listing at the NSE, the Corporation became more exposed to more regulatory requirements under the Capital Markets Act, which called for increased disclosure of financial management matters, corporate governance among other requirements. Hence, participation in the performance contracting program provided fertile ground for the Corporation to adapt to increased scrutiny of its financial and operational affairs.

## **1.2. Research Problem**

Performance management is a concept that has largely been in use in the private sector. The impetus for establishment of performance management systems has largely been informed by the agency problem. This is a problem arising from a conflict of interest between principals such as owners or shareholders and agents acting for them such as managers because of differing goals (Singabi, 2009).

Therefore, faced with the agency problem, governments around the world have adopted performance management as part of public sector reforms. According to SCAC (2009) Kenyan parastatals consume large portions of scarce national resources and do not use them efficiently and effectively. The report further outlines that over 50% of the 170 parastatals receive direct exchequer funding for their expenditure that averages 30% of national development and recurrent budget. Therefore, 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 (Mwaura, 2007). Implementation of performance contracting has promoted better focus to organisational goals and objectives (Kobia & Mohamed, 2006). Despite this, some negative effects have been experienced at Kenya Reinsurance Corporation Limited in the pursuit of performance improvement such as multiple retrenchments of staff in 1999 and 2007. While the general perception is that performance contracting has enhanced performance in the public sector, management's perception at Kenya Re may or may not conform to this conclusion given that perception is personal in nature.

A number studies have been done on Kenya Reinsurance Corporation in Strategic Management. Kandie (2011) concluded that reward system, departmental conflict, government policies and bureaucracy seemed to have been the most challenging factors with regard to strategy implementation. Studies on the effect of performance contracting on organisational performance in Kenya's public sector conducted by Choke (2006), Birech (2011) and Mohamed (2009) concluded that managers perceive performance contracting as a useful tool in achieving set targets and enhances commitment to revenue collection. Mohamed (2009) further established that

performance contracting reduces customer turnaround time, enhances employee commitment and streamlines reporting and operational structure. Koskei (2012) concluded that management perception on performance contracting is influenced by regular communication and leadership of the organization.

From the foregoing, it is evident that previous studies have focused on the relationship between performance contracting and either management perception or organisational performance. In contrast, this study will combine both concepts of perception and organisational performance under one study. The selection of Kenya Reinsurance Corporation Limited is based on the fact that it is in the only state owned enterprise in Kenya in the Reinsurance industry and no such study has been done on the entity in the past. Therefore, this study will address the question, what is management's perception of the influence of performance contracting on performance of Kenya Reinsurance Corporation Limited?

### **1.3. Research Objectives**

The objectives of the study are:

- i. To establish management's perception of the influence of performance contracting on performance of Kenya Reinsurance Corporation Limited.
- ii. To determine factors that influence management's perception of the contribution of performance contracting to performance of Kenya Re.

#### **1.4. Value of the Study**

This research will be useful to academicians and other researchers wishing to carry out further studies in the field of performance contracting and organisational performance in the public sector and other related topics. It will also provide the scholars with empirical studies that they will use in their studies.

This study will be useful to the government policy makers on performance contracting by enabling them understand factors that influence perceptions of performance contracting on performance of state owned enterprises. They will be able to utilise this information to formulate policies geared towards enhancing public sector performance which in turn may influence positive perceptions towards performance contracting.

This study will be beneficial to management of Kenya Reinsurance Corporation Limited in enabling them understand their perceptions of the factors that influence organisational performance under performance contracting. This knowledge will serve as valuable input in how the performance contracting process can be improved so as to attain maximum value for the organisation. This knowledge can also be used to improve other processes outside performance contracting such as strategy formulation, strategy implementation and evaluation processes.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1. Introduction**

This chapter discusses essential theories that form the background of the study. This chapter documents theories related to the concept of performance contracting, perception, organizational performance and performance management. It also addresses empirical evidence of previous studies in the area of performance contracting and management perception. The literature relied on has primarily been from text books which has been supplemented by journals, academic research publications and reports from professional bodies.

### **2.2. Theoretical Background**

A number of theories have been advanced to explain organisational performance and the factors that promote superior organisational performance. Performance contracting is a tool based on the result based management concept. Performance contracting is mainly employed in the public sector to enhance organizational performance. Result based management is a management strategy by which an organization ensures that its processes, products and service contribute to the achievement of desired results or outcomes. Result Based Management rests on clearly defined accountability for results and requires monitoring and self-assessment of progress towards results and reporting on performance (UNDP, 2010). The tenets of result based management are inclusiveness, ownership and accountability.

The goal setting theory conforms to the result based management tenets of inclusivity, accountability and ownership. Locke & Latham (2002) in the goal setting theory assert that people who have more difficult but attainable goals perform better than those who have less difficult goals. The theory further clarifies that goals can only motivate people toward accomplishing them based on the extent to which they have clarity, challenge, commitment, feedback and task complexity. Locke and Latham further emphasise that clarity enables people understand what is expected of them and the reward to be derived from accomplishing a goal while challenge enhances feeling of achievement and success. Commitment enhanced through ownership increases likelihood of attainment of a goal. Feedback serves to provide a mechanism for judging progress towards attainment of a goal while task complexity enhances learning which promotes performance improvement. The conclusions of the happiness and success theory which attempted to relate success of work and happiness conform to the view that people feel happy when they achieve their set goals and especially if it is hard won (Industry Commission of Australia, 1996). The same view was also supported by Brown (1996) when suggested that it is important to involve employees in setting performance goals as this creates a sense of ownership, so that they may derive happiness from their successes and hope to leave a legacy of key accomplishments.

Accountability is the highest challenge facing organisations today especially those in the public sector. However, for one to be held accountable, then what is expected of them should be very clear including the measurement criteria. Therefore, enhancement of accountability in the public sector has the answer to service delivery

problems being experienced in the public sector, where empowered people should be their own performance managers (Rukasha, Chiome & Mupa, 2011).

Peoples' behaviour is based on their perception of what reality is, not on reality itself. Perception is thus the organization, identification, and interpretation of sensory information in order to represent and understand the environment (Robbins, 2005). Perception is influenced by three factors which include factors in the perceiver, factors in the situation or context and factors in the target. Factors in the perceiver such as attitude, motives, interests and past experiences influence how a person interprets a situation. The physical, social and organisational context or setting can influence perceptions. Characteristics of the target also influence what we perceive. For instance, loud people are easily noticeable in a group compared to quiet ones (Robbins, Judge & Vohra, 2011). The key element from the foregoing being, that perceptions differ across different people exposed to the same environment.

Attribution theory explains how perceptions are formed. Attribution theory is concerned with how individuals interpret events and how this relates to their thinking and behaviour. Attribution theory assumes that people try to determine why people do what they do (Heider, 1958). The theory further suggests that when we observe a person's behaviour, we attempt to determine whether it was internally or externally caused. Internally caused behaviours are those we perceive to be under the personal control of the individual while externally caused behaviour is attributable to the situation that caused the person to behave the way they did.

Robbins, Judge and Vohra (2011), highlighted that despite the process outlined in the attribution theory, there are common shortcuts taken in forming perceptions. These shortcuts include selective perception, whereby a person's interpretation of a situation is influenced by their interest, background or attitude. Halo Effect is another shortcut where a dominant trait in the target influences conclusions drawn about them. Contrast effect is a shortcut that can distort perceptions in that how a situation is evaluated is influenced by another event or persons that we have recently met. Finally, stereotyping is whereby judgement of a situation or person is influenced by our perception of the group that the person or thing belongs to which are formed from everyday generalizations. Stereotypes in persons can be based on gender, race, tribe, religion and even weight.

### **2.3. Performance Management**

According to Wikipedia, performance management includes activities which ensure that goals are consistently being met in an effective and efficient manner. Performance management can focus on the performance of an organization, a department, employee, or even the processes to build a product or service, as well as many other areas. Similarly, Mackie (2008) defined performance management as the range of managerial activities designed to monitor, measure and adjust aspects of organisational performance through appropriate internal controls to ensure that the organisation (and its sub-units) are achieving what they are supposed to achieve. From the foregoing definitions, it is evident that performance management is a process as composed of three major activities which include defining objectives, establishing mechanisms for measuring attainment of objectives and taking action to improve organisational performance. Therefore the essence of performance



management is attaining organisational goals and improving performance. In recent decades, performance management was pursued as part of a broader package of reform generally referred to as the New Public Management (Moynihan 2008).

New Public Management models which also comprise performance contracting have therefore been invariably seen through the public service reform initiatives in many countries as the solution to reversing falling service delivery. Performance contracting is closely linked to performance management as it focuses on integrating strategy, people, resources and processes to improve organisational performance. Performance contracting is one element of broader public sector reforms aimed at improving efficiency and effectiveness (Domberger, 1998). In order to improve performance, there is need for monitoring performance through measurement and provision of feedback.

Obong'o (2009) confirms that the belief that concrete data on organizational performance, or performance metrics, should guide managers' decision making has framed most discussions of management in public agencies since early 1990s. With the increased emphasis on measurement of outcomes, the term "performance measurement" has become a higher priority. Measuring and reporting on organizational performance focuses the attention of public managers and oversight agents, as well as the general public, on what, where and how much value programs provide to the public. Similarly, the performance contracting agreement normally includes targets complete with the measurement criteria for different aspects of performance. The measurement criteria are commonly referred to as performance indicators and are taken as the measures to indicate good or poor performance.

The importance of measurement, monitoring and feedback in performance management systems cannot be underestimated. Feedback provides a mechanism through which future performance can be improved and hence failure to make the necessary modifications can inhibit the ability of the organization to be an effective and efficient global competitor. Simons (2000) summarizes the use of information in performance measurement and management control into five different uses which include improvement of decision making processes such as strategic planning, feedback to ensure the input-process-output system is properly aligned to motivate and evaluate performance, signalling or providing cues on where focus is required, promotes organisational learning as well as facilitating external communication.

#### **2.4. Performance Contracting and Organizational Performance**

The primary focus for performance contracting is enhancing organisational performance. Bernardin & Russel (2009) define that performance is the record of the result which is gained from the function of certain work or certain activities in certain period of time. Organisational performance is about organisation effectiveness and efficiency which implies that it encompasses both internal and external aspects. Researchers have argued that internal integration of various activities in an organization will be able to enhance economic performance. Flynn, Huo and Zhao, (2010) define internal integration as the degree to which two departments collaborate in the management of both inter and intra departmental process to provide maximum value for the firm.

As emphasised in result based management, accountability is a key tenet in enhancing organisational performance. Therefore, through performance contracting agreement, the government places responsibility for attainment of pre-defined outcomes or results on the management of a public entity. Under performance contracting, organisational performance is determined through use of performance indicators. The performance indicators adopted are specific to the contracting institution and are developed by the respective agencies upon agreeing on the targets. Actual achievement is rated against the set performance targets negotiated and agreed upon at the beginning of the period (Obong'o, 2009). Performance indicators are contained in a performance matrix comprising of both quantitative and qualitative performance indicators. In the Kenyan context the performance indicators are closely aligned to the balanced scorecard approach which incorporates the aspect of internal process efficiency as part of the performance indicators.

There are six broad categories of performance indicators which comprise of financial and stewardship indicators that cover financial measures such as revenue growth and budgetary efficiency, service delivery indicators that cover improvement in service levels and customer satisfaction, non-financial indicators which cover asset management, compliance matters and public welfare matters such as gender balance, HIV eradication, reduction of drug and substance abuse. In addition, the other indicators comprise of qualitative operational indicators, competency development indicators for employees and corruption eradication indicators (GOK 2013).

## **2.5. Management Perception of the influence of Performance**

### **Contracting on Performance**

Perceptions have significant influence in every day decision making process in that it influences expectations. Management perceptions are influenced by environmental factors such as an organisation's culture, policies and procedures and regulations that govern the running of every day's activities (Robbins, Judge & Vohra, 2011). Given that perceptions have an effect on expectations, perceptions can therefore have an effect on targets that are set. For instance, highly optimistic organisations are likely to set higher targets compared to conservative organisations.

Perceptions play a critical role in the process evaluating performance. Subjective evaluations, though necessary, tend to be affected by perception errors such as stereotyping, halo effect, contrast effect and selective perception, (Robbins, Judge & Vohra, 2011). Hence, it is almost impossible to have a perfectly objective assessment despite there being objective targets such as financial targets as subjective measures are incorporated to support the objective measures.

With regard to performance contracting, it is widely perceived that its implementation has brought significant benefits to the public sector (National Customer Satisfaction Survey Report, 2009). Koskei (2012) in a study on management perception of performance contracting at the Kenya Rural Roads Authority supported the conclusion of the National Survey Report. Koskei's study concluded that managers perceive performance contracting as a useful tool in the management of the public sector which had positively impacted on the cost, operations and timely completion of projects.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1. Introduction**

This chapter discusses the procedures that were used in conducting the study. These include procedures used in gathering data, analysing the data and reporting results to achieve the outlined objectives of the study. The population of study is also identified.

### **3.2. Research Design**

The study adopted a descriptive survey design to establish management's perception of the influence of performance contracting on performance of Kenya Re. The survey design was chosen for this study since it is the most suitable method for collecting information about people's attitudes, opinions, habits or any of the variety of social issues (Orodho, 2008).

In this study information was sought from respondents as at particular point in time. Information was collected without changing the environment or without manipulation of the subjects under study. No further study was done to establish the causal relationships that may exist from the responses obtained.

### **3.3. Population of the Study**

Mugenda and Mugenda (2003) defined population as a well-defined set of people, services, elements, events, group of things or households that are being investigated. The target population was the entire management team at Kenya Reinsurance Corporation Limited as implementers of performance contracting. The Management team consists of 22 managers comprising of seventeen heads of division, four

departmental heads and one CEO. All of them are based at the head offices with the exception of one regional director based at the branch office in West Africa.

A census was deemed viable given that the management team of the organisation is small and the time available permitted responses to be obtained from all members of the Management team. Further, given the small population, a census enhanced the reliability and validity of the findings.

### **3.4. Data Collection**

Data was collected via questionnaires that were used to elicit responses from management. Questionnaires were issued to all the 22 members of the Management team. The questionnaires were dropped and collected later after completion by the respondents.

The questionnaire contained closed questions for ease of analysis of data. A five point Likert scale was used to determine the degree of agreement with various variables to determine managements' perception of the influence of performance contracting on performance of the organisation. Many researchers prefer to use a Likert-type scale because it's very easy to analyse statistically (Jackson, 2009).

### **3.5. Data Analysis**

Once questionnaires were collected, they were checked for completeness and errors. Basic information was summarized using frequencies and percentages. Presentation was done using tables. The Statistical Package for Social Sciences (SPSS) tool was used since it provides an effective way of summarising research data.

Descriptive statistics were used to analyse data collected. This included use of the mean and standard deviation. Likert scales were used to facilitate this analysis. Further to this, perception indices were computed for the different variables to determine the degree of management perception with regard to the variable. The one sample t test was used to determine significance of variations in the responses. This was determined with the aid of p values at 5% level of significance.

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

### **4.1. Introduction**

This chapter presents an analysis of the findings from the study of management perception of the influence of performance contracting on performance of Kenya Reinsurance Corporation Limited. The study targeted members of management of Kenya Reinsurance Corporation Limited. Questionnaires were issued to all the 22 members of the Management team. 19 questionnaires were received back and were used for subsequent data analysis. This represents a response rate of 86% which is a good foundation upon which the analysis could be conducted.

### **4.2. Demographic Characteristics of the respondents**

In this section of the questionnaire, respondents were required to provide their demographic information such as gender, age, years of service at the organization and level of education.

**Table 4.1: Distribution of Respondents by Gender**

<b>Gender</b>	<b>Frequency</b>	<b>Percentage</b>
Male	11	58
Female	8	42
Total	19	100

**Source: Research Findings (2014)**



From Table 4.1, majority of the respondents were male at 58% and with 42% being female. This represents a fair distribution of both genders at the management level in the organisation. The researcher assessed that gender may have an influence on perception, however, from data obtained, no correlation was established between gender and perception.

**Table 4.2: Distribution of Respondents by Age**

<b>Age</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Cumulative Percentage</b>
25-34 Years	1	6	6
35-44 Years	6	26	32
45-54 Years	12	68	100
Over 55 Years	0	0	0
Total	19	100	100

**Source: Research Findings (2014)**

From results summarised in Table 4.2, majority of the respondents were aged between 45 and 54 years representing 68% while age bracket of 25 to 34 years represented the least number of respondents at 5%. Respondents were required to provide information on their age as perceptions may be influenced by age, For instance, younger managers may be more receptive of new strategies compared to older managers. The information also enabled the researcher determine consistency of the age of respondents with years of service. The results confirmed that indeed the years in service are consistent to the years in service of the respondents and that age did not particularly influence perception in this study.

**Table 4.3: Distribution of the Respondents Number of Years in Service**

<b>No. of Years</b>	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative percent</b>
0-5 Years	7	39	39
6-10 Years	1	6	45
11 Years and more	10	55	100
<b>Total</b>	<b>19</b>	<b>100.0</b>	

**Source: Research Findings (2014)**

The findings in Table 4.3 indicated that 61% of the respondents have served the organisation for more than five years with 55% of these having served the organisation for more than 11 years. Only 39% represented respondents who had served the organisation for less than five years. This indicates that majority of the respondents have a deep knowledge of the entity having worked for the organisation for more than 5 years.

**Table 4.4: Level of Education**

<b>Level</b>	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative percent</b>
Bachelors Degree	7	37	37
Masters Degree	12	63	100
PhD	0	0	100
<b>Total</b>	<b>19</b>	<b>100</b>	

**Source: Research Findings (2014)**

The findings in Table 4.4 indicate that the respondents had either a Masters or Bachelors degree with the other categories having none. A majority of the respondents had a Masters Degree at 67% compared to Bachelors at 33%. The respondents were required to indicate their level of education thus facilitating an assessment of level of appreciation of the concept. This indicates that all the respondents have a fairly good appreciation of the concept of performance contracting.

### **4.3. Overview of Performance Contracting**

This section of the questionnaire sought to establish the respondents' level of understanding of the importance of performance contracting, level of awareness of their performance targets under performance contracting and effect of performance contracting on accountability for performance.

In establishing the level of understanding of the importance of performance contracting, respondents were given several options from which they were to select one option. Majority of the respondents (84%) indicated that performance contracting is aimed at improving organisational performance with the remainder 16% reporting that performance contracting is aimed at facilitating attainment of government directives and directives. With regard to level of awareness of targets in their respective departments and divisions, it was observed that all (100%) of the respondents are aware of the performance targets in their respective departments and divisions. This is position was further reinforced by the fact that 84% of the respondents either agreed or strongly agreed to being fully involved in establishing performance targets for their departments or divisions. 95% of the respondents further

contend that performance contracting has enhanced level of accountability for performance with only 5% reporting otherwise.

#### **4.4. Performance Contracting and Organizational Performance**

This section sought to establish the respondents' opinion of the contribution of performance contracting to organisational performance. This was done through use of various performance indicators which included financial indicators, service delivery indicators and welfare indicators in relation to performance contracting.

The respondents were requested to indicate their extent of agreement with the contribution of performance contracting to performance in a five point Likert scale. The range was 'strongly disagree (1)' to 'strongly agree' (5). The scores of strongly disagree and disagree have been taken to represent a variable which had a mean score of 0-2.5 on the continuous Likert scale. The scores of 'moderate' were taken to represent a variable with a mean score of 2.6-3.5 while the score of agree and strongly agree have been taken to represent a variable which had a mean score of 3.6-5 on the continuous Likert respectively. Where the level of significance is evaluated to be lower than 0.05, then a significant variation exists in the responses provided. Further, perception indices were computed for the different variables to determine the extent of management perception. The index also facilitated comparison of perceptions across the variables.

#### 4.4.1. Performance Contracting and Financial Performance

The respondents were requested to indicate their level of agreement with the contribution of performance contracting to financial performance using various financial indicators. The results are summarised in Table 4.5.

**Table 4.5: Performance contracting and Financial Performance**

<b>A. Financial Indicators</b>	Mean	Perception Index	Std Deviation	t-value	Sig
Revenue growth	4.47	89%	0.51	3.26	0.002
Revenue collection	3.84	77%	0.69	1.57	0.07
Cost efficiency	3.68	74%	0.67	-2.64	0.01
Increased Profitability	4.37	87%	0.68	1.77	0.05

**Source: Research Findings (2014)**

The results in Table 4.5 indicate that the respondents strongly perceive that performance contracting has led to significant improvement in the financial performance of the Corporation at an overall perception index of 82% (mean 4.09). Respondents perceive that performance contracting has significantly and positively influenced revenue growth (mean 4.47) increased profitability (mean 4.37) as well as led to improvement in revenue collection (mean 3.84). The variation from the mean is statistically significant for revenue growth and cost efficiency.

The findings conform to the aim of establishing the performance contracting program. Further, these findings are consistent with the findings of Mohamed (2009) which concluded that managers perceive performance contracting as a useful tool in achieving set targets and enhances commitment to revenue collection.

#### 4.4.2. Performance Contracting and Service Delivery

The respondents were required to point out their level of agreement with the various statements in relation to the contribution of performance contracting in enhancing service delivery in the organisation. The results are as illustrated in Table 4.6.

**Table 4.6: Performance Contracting and Service Delivery**

<b>B. Service Delivery Indicators</b>	Mean	Perception Index	Standard Deviation	t value	Sig
Staff commitment to offering quality service	3.84	77%	0.50	0.54	0.30
Reduced customer complaints	3.79	76%	0.71	0.06	0.48
Faster service	3.58	72%	0.51	-1.72	0.05
Increased use of technology for efficiency	3.84	77%	0.50	0.54	0.30

**Source: Research Findings (2014)**

The findings in Table 4.6 indicate that respondents strongly perceive at an overall index of 76% (mean 3.78) that performance contracting has had a positive influence on service delivery in the organization. From the results, management feel that

implementation of performance contracting has led to increased staff commitment to offering quality service (mean 3.84), performance contracting has led to enhanced use of technology to promote efficiency (mean 3.84) as well as led to a reduction in customer complaints. However, management perceives that performance contracting has had a moderate effect in provision of faster service (3.58). The variations are minimal under the service delivery indicators implying a near unanimous position by the respondents.

Despite the perception index being high at 76%, this is relatively lower compared to the perception index recorded under financial performance. Hence, it is evident that although performance contracting has enhanced service delivery, the level of influence is not seen to be as significant as in the financial indicators. Notwithstanding, these findings appear to be aligned to Kimathi (2006) who established that performance contracting has largely been perceived to improve public sector performance by improving efficiency and effectiveness in service delivery.

#### **4.4.3. Performance Contracting and Welfare Enhancement**

The respondents were required to provide their level of agreement with various statements in relation to the contribution of performance contracting in enhancing employee and organisational welfare. The results are as illustrated in Table 4.7.

**Table 4.7: Performance contracting and Welfare Enhancement**

<b>C. Welfare Indicators</b>	Mean	Perception Index	Std Deviation	t value	Sig
Corruption Eradication	3.42	68%	0.84	-2.44	0.01
HIV/AIDS awareness amongst staff	4.21	84%	0.63	2.22	0.02
Drug and substance abuse amongst staff	3.95	79%	0.71	0.35	0.36
Enhanced compliance to laws and regulations	4.00	80%	0.67	0.72	0.24

**Source: Research Findings (2014)**

According to the findings in Table 4.7, Management strongly perceives that implementation of performance contracting has enhanced staff and organisational welfare as reflected by an overall perception index of 78% (mean 3.89). With regard to welfare enhancement, the greatest influence of performance contracting with has been on creating awareness of HIV/AIDS amongst staff (mean 4.21), promoting compliance to laws and regulations (mean 4.00) as well as facilitating creation of greater amongst staff awareness on drugs and substance abuse (3.95). However, implementation of performance contracting is perceived to have had a moderate effect on eradication of corruption (3.42).



From the foregoing, it is evident that performance contracting is generally perceived to have has a positive impact on all welfare indicators except for corruption eradication. This implies that there may be a need for the organisation to enhance or review the performance targets in this area to promote better performance.

#### **4.4.4. Performance Contracting and Reward for Performance**

In this section, respondents were required to indicate whether they are remunerated or rewarded for attaining targets under performance contracting. The aim was to establish whether respondents are motivated or committed to attain targets under performance contracting. The response required was either an agreement or disagreement. For disagreements, respondents were required to indicate alternative tools that are used to reward performance.

The findings indicated that while 58% of the respondents reported to being rewarded for attaining targets under performance contracting, 42% reported that they are not rewarded. Majority of the respondents including some of those who affirmed to being rewarded under performance contracting indicated that their reward is largely tied to the balanced scorecard system which incorporates the performance contracting targets. Hence, it was concluded that the respondents are in fact rewarded for attaining targets under performance contracting.

#### **4.5. Performance Contracting and Management Perception**

This section sought to establish managements' perception of the influence of performance contracting to promoting better performance. Respondents were required to indicate their level of agreement with various statements in relation to

their perception of performance contracting and its influence in promoting better performance. The results are as illustrated in Table 4.8.

**Table 4.8: Performance contracting and Management Perception**

	Mean	Perception Index	Std Deviation	t value	Sig
Promotes positive work attitude amongst staff	3.79	76%	0.79	0.00	0.50
Work Satisfying	3.74	75%	0.73	-0.32	0.38
Work Creative	3.37	67%	0.76	-2.42	0.01
Work Challenging	3.58	72%	0.90	-1.02	0.16
Me feel responsible for my performance	4.21	84%	0.54	3.42	0.00
Me feel an enhanced sense of accomplishment	3.95	79%	0.71	0.97	0.17
Performance better among my staff	3.89	78%	0.57	0.80	0.22

**Source: Research Findings (2014)**

According to the results in Table 4.8, management strongly perceive that performance contracting has led to a conducive work environment for enhanced organisational performance with the overall perception index standing at 76% (mean 3.79). Performance contracting led to the respondents feeling more responsible for their performance (mean 4.21) hence enhancing their sense of accomplishment (mean 3.95). Further, performance contracting is also perceived to have promoted positive

work attitude amongst staff (3.79) as well as contributing to better performance amongst staff (mean 3.89) besides making work more satisfying (mean 3.74). Despite this, the influence of performance contracting is perceived to be moderate with regard to enhancing creativity (mean 3.58) and providing challenge at work (mean 3.37). It was further observed that the respondents unanimously agreed in all the indicators except for creativity where the views of the respondents significantly varied.

It is evident that management perceives that performance contracting has had a significant influence in promoting a conducive environment for better organisational performance. These findings conform to Mohamed (2009) who concluded that managers perceive performance contracting as a useful tool in achieving set targets. This could be partially explained by the fact that performance contracting creates a performance oriented culture in the organisation. However, from the findings it is clear that there is need to enhance the performance contracting indicators to promote challenge and creativity which is key in promoting innovation at the organisation. A conditionality postulated in the goal setting theory that for goals to be motivating, they should provide challenge, (Latham & Locke, 2002).

#### **4.6. Factors that influence Management Perception of the influence of Performance Contracting on Organizational Performance**

The respondents were requested to indicate the extent to which various factors influenced their perception of the influence of performance contracting on performance of Kenya Reinsurance Corporation Limited. The results are summarised in Table 4.9.

**Table 4.9: Factors that influence Management Perception of the influence of Performance contracting on organisational performance**

	Mean	Perception Index	Std Deviation	t value	Sig
Communication in the Performance Contracting process	4.37	87%	0.96	0.27	0.40
Organizational culture	4.11	82%	0.94	-0.95	0.18
Your level of involvement in the process	4.26	85%	0.93	-0.22	0.41
Other managers and employee attitude towards the process	4.21	84%	0.79	-0.55	0.29
Management and leadership of the organization	4.74	95%	0.45	4.11	0.0003
Ranking / Evaluation process in performance contracting	4.47	89%	0.61	1.17	0.13
Better performance among my staff	4.05	81%	0.78	-1.44	0.08

**Source: Research Findings (2014)**

Table 4.9 indicates that management generally agree that the listed factors have had a strong influence on their perception of the contribution of performance contracting to the performance of the organisation. The overall perception index stands at 86% (mean 4.31). The factors have had the greatest influence on their perception include Management and leadership of the organisation in the process (mean 4.74), the ranking or evaluation system used in the process of performance contracting (mean 4.47) as well as communication on the performance contracting process (mean 4.37).

Additional factors which have also had a significant influence on the respondents' perception include their level of involvement in the process (4.26), other managers and employee attitude towards the process (mean 4.21) as well as organisational culture (mean 4.11).

From the foregoing, it is evident that Management and leadership of the organisation are the greatest pillars for performance contracting to enhance organisational performance. The ranking and evaluation process provides a mechanism for feedback besides enhancing the need for achievement. Communication and level of involvement in setting goals are additional factors that have promoted management of the organisation to perceive performance contracting as a positive influencer to the organisation's performance. This position is also reinforced by the fact that managers are all fully involved in the process and are all aware of their targets. These findings are fully supported by Result Based Management (RBM) theories upon which the concept of performance contracting is anchored. Result Based Management emphasizes on clearly defined accountability for results with monitoring and self-assessment of progress towards results and reporting on performance (UNDP, 2010). As per the findings, the organisation has to a significant extent influenced positive perceptions on the performance contracting process through adhering to these tenets of Result Based Management of inclusiveness, ownership and accountability.

#### **4.7. Discussion**

The study has established that management of Kenya Reinsurance Corporation Limited hold that performance contracting has enhanced the level of accountability for their performance. This position is also strongly supported by findings of similar

study by Kobia & Mohammed (2006)) which concluded that implementation of performance contracting has promoted better focus to organisational goals and objectives since, performance contracting enhances setting of the individual job expectations and staff performance plans.

In this study, management of the organisation strongly perceive that performance contracting has had a significant influence across all facets of organisational performance which range from financial performance, service delivery and employee and organisational welfare. Performance contracting has had the greatest influence on financial performance (perception index at 82%) with the least influence on service delivery (perception index at 76%). Despite this, this research concluded that all these are strong indices based on the analysis criteria. Specific performance indicators that were perceived not to have been significantly influenced by the implementation of performance contracting include provision of faster service and eradication of corruption. These findings have been established to be consistent with findings in studies by Birech (2011) and Koskei (2012) conducted in public entities in the Kenyan energy and transport sectors respectively, concluded that implementation of performance contracting led to improvements in financial performance such as revenue collection as well as enhanced service delivery such as timely completion of projects. However, while this study established that performance contracting has had a moderate effect on corruption eradication, Birech (2011) established that the influence was strong.

The foregoing findings, however, contradict Opiyo (2008), who established that implementation performance contracting has been met with huge resistance from employees in Kenya. The study singled out teachers and judges who refused or reluctantly signed performance contracts. The findings of this study while indicating that there could be increasing acceptance of performance contracts, does not pre-empt the possibility of continued resistance in these two sectors. Besides this, the time lapse between Opiyo's study and the current study could explain the change in acceptance levels.

This study established that the positive perceptions of the contribution of performance contracting on performance are influenced by factors such as management and leadership of the organisation in the process, extensive communication, intensive involvement of the managers in setting targets thus promoting a high awareness level on targets, as well as the ranking and evaluation process which serves to reinforce accountability for own performance. Koskei (2012) in her study similarly concluded that management perception on performance contracting is influenced by regular communication and the leadership of the organization. Further, these findings strongly conform to the goal setting theory advanced by Latham & Locke in 2002. This theory demonstrated that clear goals and appropriate feedback motivate employees to work toward a goal which, in turn, improves performance. However, for goals to be motivating they need to be clear, moderately challenging in view of the task and should foster commitment. This theory clearly reinforces the need for strong communication and feedback.

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

### **5.1. Introduction**

This section provides a summary of the research findings from chapter four. It also provides recommendations and conclusions of this study based on the objectives of the study. Further suggestions and recommendations on key areas that need to be considered for further research have been outlined.

### **5.2. Summary of Findings**

This study sought to meet the following two objectives; firstly, it sought to establish management's perception of the influence of performance contracting on performance of Kenya Reinsurance Corporation Limited and secondly to determine the factors that influence management's perception.

Management strongly holds that performance contracting is aimed at enhancing performance of Kenya Reinsurance Corporation Limited. All the managers were noted to be fully aware of their performance targets under performance contracting largely because they are fully involved in establishment targets for their respective divisions or departments. Performance contracting is also seen to have enhanced accountability for the managers' performance and that indeed they are rewarded for attaining targets under performance contracting.



Management perceives that performance contracting has had a significant influence on performance of the organisation with the greatest influence being on financial performance specifically on revenue growth and the organisation's profitability. Other significant positive impacts of performance contracting were established to be in enhancement of employee and organisational welfare as reflected in its contribution to enhanced awareness to social issues such as HIV/AIDS and drugs and substance abuse among staff as well as enhancing Corporation's compliance to laws and regulations. Despite this, management perceive the influence of performance contracting towards corruption eradication and provision of faster service to corporation's customers to be moderate.

It was further perceived that implementation of performance contracting has promoted a conducive environment for better organisational performance by making management feel more responsible for their performance and enhancing sense of accomplishment, promoting positive work attitude besides promoting better performance amongst staff. Despite this performance contracting has had little effect in promoting creativity and making work challenging.

An array of factors were identified as affecting management perception of the influence of performance contracting on the organisation's performance. These factors include management and leadership of the process, the ranking and evaluation process adopted in performance contracting, communication in the process as well as the level of involvement of the managers in the process. Other factors that have also contributed to this perception include a positive organisation culture and positive employee and manager attitude towards the performance contracting process.

### **5.3. Conclusion**

Implementation of performance contracting at Kenya Reinsurance Corporation Limited is generally perceived by management of to have led to significant positive impact on the Corporation's performance. This study concludes that performance contracting has had significant contribution to financial performance and welfare enhancement with a slightly lower impact relative to the other indicators being in service delivery.

This study also concludes for the benefits of performance contracting to be realised there is need for strong management and leadership, enhanced communication in the process, involvement of the implementers in target setting to promote accountability. Further, the ranking and evaluation process is also considered an important aspect as it provides feedback to the managers besides promoting a greater need for achievement which is key in motivating organisational performance. These findings have been established to be consistent with the postulations of various result based management theories such as the goal setting theory as well as previous empirical studies.

From the discussions, it is evident that the findings of this study are consistent with the conclusions of a number of past studies. These findings include the fact that performance contracting has enhanced the level of accountability in public sector entities as well as leading to significant improvement in financial performance and service delivery. In sharp contrast to earlier studies which established that performance contracting has had a strong effect in corruption eradication, this study established the effect to be moderate.

#### **5.4. Recommendations for Policy and Practice**

Having noted that the service delivery indicators had the lowest perception index compared to the other performance indicators, it would be important for management of the entity to establish the root cause for this with an aim of enhancing the perception index. A key aspect that would require deeper analysis would be service delivery speeds given that the respondents perceived that performance contracting had a moderate impact in promoting faster service. This is important since the organisation is in the insurance industry which is a service industry. The industry is faced with cut throat competition with marketing campaigns now tilting towards service quality. For instance, a lot of firms are competing on the basis of efficiency in claim settlement.

This study also recommends that there is need for the organisation to enhance the perception of the influence of performance contracting on creativity to promote innovation. Given that the organisation operates in a highly competitive sector, innovation and creativity are what will guarantee long term survival of the organisation. Therefore, in consultation with the government, the entity should establish mechanisms of enhancing existing indicators or introducing better indicators that will promote innovation.

#### **5.5. Limitations of the study**

Although this study helped to shed light on the management's perception of the influence of performance contracting on Kenya Reinsurance Corporation's performance, the study was subject to a number of limitations. These constraints influenced the scale of the study but did not affect the conduct of the research once

the design was arrived at. These limitations include the fact that performance contracting as practised in Kenya is the result of negotiations between a public entity and the government, the targets set may be a reflection of the entity's negotiating capabilities. These tend to differ across entities. In conducting this study, the researcher did not test the entity's negotiating capacity and if these are reflective of the targets set for the entity under performance contracting.

This study was limited to the Management team of Kenya Reinsurance Corporation Limited that comprised of only 22 members out of the entire Corporation staff compliment of 100 staff. This means that the perceptions of other staff were not sought given that they may not necessarily conform to those of management. Further, the findings of this study may also fail to conform to the findings of management of another public sector entity although the performance contracting tool used is similar.

This study relied on primary data obtained using a questionnaire which may be subject to questionnaire bias. It is likely that some respondents misunderstood the questions or gave biased opinions. No further analysis or experiments were done to establish extent of bias. There is therefore need for further analysis probably across various public entities to eliminate this bias.

## **5.6. Suggestions for Further study**

This study only sought to establish managements' perception of the influence of performance contracting on performance of Kenya Reinsurance Corporation Limited. As highlighted before, capacity of the entity to negotiate targets was not considered in this study. Therefore there is need for further studies on whether the negotiating

capacity of an entity may have an influence on targets set and consequently an influence on the capacity of the entity to attain its targets under performance contracting.

This study also focused on the Management team at Kenya Reinsurance Corporation Limited to the exclusion of the rest of the staff. Similar studies should be done for the entire employee population at the same institution since they participate in the process as executors of the various targets. Similar studies should be done for other public sector players such as other parastatals, public commissions and government ministries.

This study used a primary data to collect information on management perception with no further tests being conducted to determine extent of bias. Further studies should be done to determine the relationship between personal traits of employees and the relationship it has on their on their perception towards performance contracting as a tool for enhancing organisational performance.

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## APPENDICES

### Appendix I: Research Questionnaire

#### MANAGEMENT PERCEPTION OF THE INFLUENCE OF PERFORMANCE CONTRACTING ON PERFORMANCE OF KENYA REINSURANCE CORPORATION LIMITED

##### SECTION A: DEMOGRAPHIC INFORMATION

1. Gender: Male [ ] Female [ ]
  
2. Your age bracket (Tick whichever appropriate)
  - 25 - 34 Years [ ]
  - 35 - 44 years [ ]
  - 45 – 54 years [ ]
  - Over 55 years [ ]
  
3. For how long have you served in Kenya Reinsurance Corporation
  - 0 - 5 years
  - 6 - 10 years
  - 11 years and more
  
4. What is your highest level of education?
  - Diploma Certificate [ ]
  - Higher National diploma [ ]
  - Bachelors [ ]
  - Masters [ ]
  - PhD [ ]

*Please note the following are rated as follows, wherever used in this questionnaire in the sections below*

1	2	3	4	5
Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree

## **SECTION B: OVERVIEW OF PERFORMANCE CONTRACTING**

5. In your opinion, what is the goal of performance contracting in your area of operations?
6. Are you aware of the targets in your department / division under performance contracting?
- Yes [ ]                      No [ ]
7. I am fully involved in establishing targets in my department / division?
- |                   |     |
|-------------------|-----|
| Strongly Disagree | [ ] |
| Disagree          | [ ] |
| Neutral           | [ ] |
| Agree             | [ ] |
| Strongly Agree    | [ ] |
8. Have performance contracts enhanced your ability to discharge your duties?
- Yes [ ]                      No [ ]
9. Performance contracting has enhanced accountability for performance in my department / division.
- Yes [ ]                      No [ ]

If not, what other factors influence performance in your area of operation

## SECTION C: PERFORMANCE CONTRACTING AND ORGANIZATIONAL PERFORMANCE

Please indicate to your level of agreement or disagreement to the following statements

10. Performance contracting has led to significant improvement in the following financial indicators:

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
a) Revenue growth	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) Revenue collection	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c) Cost efficiency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d) Increased Profitability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

11. Performance contracting has led to significant improvement in the following indicators of service delivery:

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
a) Staff commitment to offering quality service	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) Reduced customer complaints	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c) Faster service	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d) Increased use of technology for efficiency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

12. Performance contracting has led to significant improvement in the following welfare indicators:

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
a) Corruption Eradication	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) HIV/AIDS awareness amongst staff	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c) Drug and substance abuse amongst staff	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d) Enhanced compliance to laws and regulations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

13. Do you get remunerated or rewarded on attainment of the targets under performance contracting? Yes [ ] No [ ]
- If no, kindly elaborate which other targets influence reward.

**SECTION C: PERFORMANCE CONTRACTING AND MANAGEMENT PERCEPTION**

Indicate to what extent you agree or disagree with the following statements:

14. Performance contracting promotes positive work attitude among my staff.

Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
[ ]	[ ]	[ ]	[ ]	[ ]

15. Implementation of performance contracting has made:

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
a) Work Satisfying	[ ]	[ ]	[ ]	[ ]	[ ]
b) Work Creative	[ ]	[ ]	[ ]	[ ]	[ ]
c) Work Challenging	[ ]	[ ]	[ ]	[ ]	[ ]
d) Me feel responsible for my performance	[ ]	[ ]	[ ]	[ ]	[ ]
e) Me feel an enhanced sense of accomplishment	[ ]	[ ]	[ ]	[ ]	[ ]
f) Better performance among my staff	[ ]	[ ]	[ ]	[ ]	[ ]

**SECTION C: FACTORS THAT INFLUENCE MANAGEMENT PERCEPTION OF THE CONTRIBUTION OF PERFORMANCE CONTRACTING TO ORGANIZATIONAL PERFORMANCE**

16 Please rate to what extent, the following factors influence your perception of the contribution of performance contracting to organizational performance:

	Does not influence	Hardly influences	Somewhat influences	Partially influences	Strongly influences
a) Communication in the performance contracting process	[ ]	[ ]	[ ]	[ ]	[ ]
b) Organizational culture	[ ]	[ ]	[ ]	[ ]	[ ]
c) Your level of involvement in the process	[ ]	[ ]	[ ]	[ ]	[ ]
d) Other managers and employee attitude towards the process	[ ]	[ ]	[ ]	[ ]	[ ]
e) Management and leadership of the organization	[ ]	[ ]	[ ]	[ ]	[ ]
f) Ranking / Evaluation process in performance contracting	[ ]	[ ]	[ ]	[ ]	[ ]
g) Performance better among my staff	[ ]	[ ]	[ ]	[ ]	[ ]

**End**

*(Thank You Very Much for Your time)*

**Appendix II: Introduction Letter**

**MANAGEMENT PERCEPTION OF THE INFLUENCE OF  
PERFORMANCE CONTRACTING ON PERFORMANCE OF  
KENYA REINSURANCE CORPORATION LIMITED**

DATE: .....

**TO WHOM IT MAY CONCERN**

The bearer of this letter.....

Registration No.....

Is a bona fide student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his / her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore appreciate your assistance to enable him/her collect data in your organisation.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organisation on request.

Thank you