

**CHALLENGES FACED IN IMPLEMENTING PERFORMANCE
CONTRACTING STRATEGY IN THE MINISTRY OF STATE FOR
PUBLIC SERVICE**

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DECLARATION

This research is my original work and has not been submitted for a degree in any other university.

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This Project Paper may have mistakes of omissions. For these I take full responsibility acknowledging that they in no way reflect shortcomings in the contributions of the parties acknowledged above.

DEDICATION

To my lovely son Justin for his never –ending encouragement and support and entire family, you abound with me through it all, as always and made the task a delightful experience.

ABSTRACT

Strategy implementation is the process that turns implementation strategies and plans into actions to accomplish objectives. The strategy implementation process is a process being undertaken through a systematic approach and provides a link between strategic consensus and success. Performance contract on the other hand is a useful vehicle for articulating clearer definitions of objectives and supporting new management monitoring and control methods, while at the same time, leaving day-to-day management to the managers themselves. Governments all over the world view Performance Contract (PC) as a useful vehicle for articulating clearer definitions of objectives and supporting new management monitoring and control methods, while at the same time, leaving day-to-day management to the managers themselves.

The research design was a case study of the Ministry of State for Public Service on the challenges faced in implementing performance contracting strategy. The data collection tool was an interview guide. Content analysis was used to analyze the qualitative primary data which had been collected by conducting interviews and secondary information from the organization.

The findings from the study were that organizational culture, organizational structure, leadership and management and effective performance management affect successful implementation of performance contracting strategy. The challenges brought about were communication problems between the departments, administrative, hinders full implementation of performance contract strategy, delayed services and also poor service delivery, poor communication feedback, ineffective coordination and poor

sharing of responsibilities, non involvement of the employees in setting targets and lack of policy guide on reward to motivate employees towards achievements of organizational targets.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The primary development goal for any country is to achieve broad-based, sustainable improvement in the standards of the quality of life for its citizens. The Public service and in particular the civil service plays an indispensable role in the effective delivery of public services that are key to the functioning of a state economy. When the delivery of services is constrained or becomes ineffective, it affects the quality of life of the people and nation's development process. Public services in many African countries are confronted with many challenges, which constrain their delivery capacities (Lienert, 2003). On the other hand, the gradual erosion of the ethics and accountability has continued to bedevil the public sector in delivering public services to the people effectively. Public sector reforms meant to address these challenges have achieved minimal results (AAPAM, 2005).

All organizations have been faced with challenges like never before. Increasing competition from businesses across the world and demanding citizens for effective service delivery has meant that all organizations must be much more careful about the choice of strategies to adopt. Everyone in the organization must know what they are supposed to be doing to ensure strategies are implemented effectively (Stiles *et al*, 2007). The kind of service being delivered has put more focus on effectiveness, that systems and processes in the organization be applied in the right way to the right things, that is to achieve results. All of the results across the organization must continue to be aligned to achieve the overall objectives desired by the organization for it to survive and thrive.

Once objective has been achieved, then it can be said that the organization and its various parts are really performing.

Governments all over the world view performance contracting strategy as a useful vehicle for articulating clearer definitions of objectives and supporting new management monitoring and control methods, while at the same time, leaving day-to-day management to the managers themselves (AAPAM, 2006). 1992).

In implementing of performance contracting strategy, the issues that being addressed include; improving performance to deliver quality and timely services to citizen, improving productivity in order to increase wealth, reducing or eliminating reliance on the exchequer, instilling a sense of accountability and transparency in service delivery and the utilization of resources and giving autonomy to government agencies without being subjected to the bureaucracies and unnecessary procedures (AAPAM, 2006).

1.1.1 Concept of Strategy

Quinn (1980) defines strategy as a pattern or plan that integrates an organization's major goals, policies and action sequences into a cohesive whole. Webster (1994) calls this the building block of strategic management and notes that a secure foundation (strategy) is needed if the process (strategic management) is to function properly. In this sense strategy provides the link between where the organization is at present and where it would like to be in the future. Mintzberg (1994) portrays strategy as a plan, a direction, a guide or course of action into the future and as a pattern, that is, consistent in behaviour over time. According to Johnson and Scholes (2002) strategy is the direction and scope of an organization over the long term, which achieves advantage for the organization

through its configuration of resources within a changing environment and fulfils stakeholders` expectations. Strategy is a unifying theme that gives coherence and direction to the actions and decisions of an individual or organization.Strategy embraces the overall purpose of an organization. It is the determination of the basic long-term goals and objectives of an enterprise, adoption of courses of action and the allocation of resources necessary for carrying out those goals. The Kenyan firms, like any other firm, exist in a complex environment that needs to be assessed and responded to appropriately. Thomson and Strickerland (2003), observe that strategies are at ends and these ends concern the purpose and objectives of the organization. They are the things that organizations do, the paths they follow and the decisions they take in order to reach certain points or level of success. Mintzberg (1994) portrays strategy as a plan, a direction, a guide or course of action into the future and as a pattern, that is, consistency in behavior over time. Most organizations began their strategic planning cycle by updating and revising their business objectives in relation to performance reviews in key areas (such as people, standards and business development), achieved results and development priorities (Teare *et al.*, 1992).

1.1.2 Strategy Implementation

Strategy Implementation is an important component of the strategic planning process. It has been defined as “the process that turns implementation strategies and plans into actions to accomplish objectives” (Pride and Ferrell 2003, p.574). It addresses then who, where, when, and how to carry out strategic implementation process successfully, (Kotler *et al.* 2001). Pride and Ferrell (2003) define strategy implementation as “the process of putting strategies into action”. According to David (2003), both managers and employees

should be involved in the implementation decision and adequate communication between all parties is important for successful implementation. Elements that require consideration during the implementation process include annual objectives, policies, resource allocation, management of conflict, organization structure, managing resistance to change, and organizational culture (David 2003). In developing policies during the implementation process, methods, procedures, rules, forms, and administrative practices are established.

Bartlett and Ghoshal (1987, p. 73) noted that in all the companies they studied “the issue was not a poor understanding of environmental forces or inappropriate strategic intent. Without exception, they knew what they had to do; their difficulties lay in how to achieve the necessary changes”. Supporting this, Miller (2002) reports that organizations fail to implement more than 70 percent of their new strategic initiatives. Given the significance of this area, the focus in the field of strategic management has now shifted from the formulation of strategy to its implementation (Hussey, 1998). There are some commonly used models and frameworks such as SWOT, industry structure analysis and generic strategies for researchers and practicing managers in the areas of strategy analysis and formulation in strategic management. By contrast, there is no agreed-upon and dominant framework in strategy implementation. Concerning this, Alexander (1991) has stated that: One key reason why implementation fails is that practicing executives, managers and supervisors do not have practical, yet theoretically sound, models to guide their actions during implementation. Without adequate models, they try to implement strategies without a good understanding of the multiple factors that must be addressed, often simultaneously, to make implementation work.

1.1.3 Strategy Implementation Challenges

Organizing implementation processes presents some imposing challenges. Managers are often assigned to implementation teams with little expected reward, no relief from normal responsibilities, and a poor understanding of the broader scope and goals of the strategy being implemented. Many managers believe that a well conceived strategy that is communicated to the organization equals implementation. According to Beer and Eisenstat (2000), there were six fundamental reasons why various strategies developed by firms were not implemented effectively. They identified that employees saw the overall problem being rooted fundamentally in the process of management issues of leadership, teamwork and strategic direction and not in the commitment of people and their functional competencies. Poor quality vertical communication not only hinders strategy communication but also prevents discussions of the barriers themselves.

Organizations face difficulties while implementing and executing their strategies for different reasons. There is uncertainty about what these processes include and where they begin and end. Such uncertainty includes weak management roles in implementation, a lack of knowledge and communication to guide their actions, unawareness or misunderstanding of the strategy, poor coordination, inadequate capabilities, competing activities within the working team, unfortunate marketing timing, uncontrollable environmental factors, misaligned operation and insufficient monitoring and evaluation of the process (Okumus, 2003).

Top-down or laissez faire management style that involves discomfort with conflicts and use of top team for administrative matters instead of focused strategic discussions was identified as a major factor that hinders the implementation of strategies. Ineffective

senior management that operates independently and refuses to cooperate effectively for fear of losing power has also been identified to be a factor that hinders strategy implementations. Conflicting priorities and the subsequent lack of coordination thereof will equally reduce the effectiveness of a strategy implementation. Any two conflicting strategies will battle each other for the same resources leading to disharmony among the employees and if not checked, it might lead to sub optimality among the various organizational departments.

1.1.4 Performance Contracting Strategy

According to Kumar (1994), performance contract is defined as a Memorandum of Understanding (MOU). MOU is rooted in an evaluation system, which not only looks at performance comprehensively but also ensures improvement of performance by making the autonomy and accountability aspect clearer and more transparent. While OECD (1999), define performance contracts strategy as a range of management instruments used to define responsibilities and expectations between parties to achieve mutually agreed results.

The Government of Kenya (Legal Notice No.93, 2004) defines PC strategy as a freely negotiated performance 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. The fundamental principle of performance contracting is the devolved management style where emphasis is management by outcome rather than management by processes. It therefore provides a framework for changing behaviours in the context of devolved management structures. While Smith (1999) argues that a

common definition of performance contracting strategy cannot be found, there are a considerable variety of uses and forms for quasi-contractual arrangements. PC strategy is considered as essential tool for enhancing good governance and accountability for results in the public sector. Essentially, a PC strategy is an agreement between the government and a public agency (Kenya, Sensitization Training Manual, 2004). It establishes goals for the agency, sets targets for measuring its performance, and provides incentives for achieving the targets; also set mechanisms for controlling the outcome rather than the process. Whereas the general public and even some high ranking public servants may very much welcome the idea of performance contracting and measuring performance, it might not be readily accepted by everybody.

The Government of Kenya introduced Performance Contracting strategy in the Public Service as one of the tools to improve service delivery. Since its introduction in 2004, when only a few State Corporations were participating, Performance Contracting is now being implemented in a majority of Ministries, Departments and Agencies (MDAs). The decision to extend its coverage to all MDAs was as a result of the benefits that were beginning to be manifest in participating institutions through improved administrative and financial performance as well as improved service delivery.

1.1.5 Ministry of State for Public Service

Ministry of State for Public Service former Directorate of Personnel Management (DPM) after the attainment of independence, the Government expanded the functions of the Directorate of Personnel through Personnel Circular No. 29 of 11th may 1964 to include

coordination, planning of all Africanisation and training matters. The Government also elevated the position of the Director of Personnel to the level of Permanent Secretary to reflect the importance of the personnel function. Notwithstanding the above arrangement, the responsibilities over establishment control and pay determination continued to fall under the Permanent Secretary Treasury. In 1969, the Management Services branch of the Directorate was established to provide expertise on optimum utilization of Human resources and the application of modern management practices and techniques.

The Ministry initiates and coordinates human resource management reforms in the public service, harmonize and update terms and condition of service for the public service. It is responsible for training and capacity building in the public service. It provides guidelines and Monitor payroll and human records in the public service.

1.2 Statement of the Problem

Although Performance Contracting strategy has had these successes, it has also experienced some challenges. Over the last three periods of performance contracting, the public has raised dissatisfaction on the results as they do not relate to performance (service delivery) on the ground as perceived and received by the public. The dissatisfaction with the performance results was not only limited to members of the public. Ministries, Departments and Agencies have also challenged the announced results. Indeed, the public outcry over the results became so strong that the results for 2007 were never released.

Ministry of State for Public Service is different from other Ministries, because it's a service Ministry dealing with the entire Public Service it formulates and articulates

comprehensive human resource management policies, rules, regulations and set standards for the Public Service that will ensure a highly motivated workforce for sustainable performance improvement and service delivery. The Ministry is tasked with monitoring the implementation of performance contracting strategy, has faced challenges such as absence of clear, well-formulated objectives based on strategic plan. This makes it difficult to assess organizational and individual performance and also public enterprises develop strategic plans without involving all stakeholders, which leads to lack of ownership and in turn makes it difficult to achieve strategic objectives.

Korir (2006) looked at the impact of performance contracting in state corporations with specific reference to East Africa Portland Cement Company. His findings were that all departments were involved in setting and negotiating for the contract targets however the team involved in negotiation was not adequate and therefore recommended that more stakeholders should be involved at the negotiation stage. There was resistance and lack of ownership in the process of PC because managers were not involved in the development of performance indicators, attributes and its classification. Langat (2006) studied the factors necessary for the design of a good performance contract in state corporations. The study established that for a successful design of a PC, it is necessary for an organization to clearly define its vision, mission and strategic objectives.

As observed above, the studies conducted on performance contract strategy did not consider the challenges faced by the Ministry of State for Public Service in implementing performance contracts which have been signed by other ministries. The above studies cannot be used to analyze the Ministry because the challenges affecting the implementation of a strategy in the Ministry are different from those which affect other

organizations. This research will therefore seek to identify the challenges faced by the Ministry of State Public Service. This problem statement leads to the following question: what are the challenges facing the Ministry of State for Public Service in implementation of performance contracting strategy?

1.3 Research Objective

To determine the challenges faced by the Ministry of State for Public Service in implementing performance contracting.

1.4 Value of the Study

The study is considered important to the Ministry of State for Public Service since it will help them to identify the challenges facing implementation of the desired strategies in the Government, thus lowering quality of services being offered by the Government. The recommendations of this study will form part of the action plans that will help in enhancing good service delivery by the Ministries. This is because management will be able to make informed decisions on issues of implementation of strategies.

Management and staff of Ministries as it will provide insight on some of the challenges that may be faced in the implementation of performance contracting strategy and how they can avoid them.

Inspector General of Corporations will be able to monitor and evaluate implementation of performance contracts and advice effective way of administering the contracts. It will provide information to future scholars and researchers who might need to research on performance contracting strategy implementation challenges in ministries. For

academicians, this study form the foundation upon which other related and replicated studies can be based on.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of theoretical and empirical literature on the strategic implementation.

2.1.1 The Concept of Strategy

Chandler (1962) defined strategy as the determination of the basic long term goals and objectives of an enterprise and the adoption of action and the allocation of resources necessary for carrying out these goals. This means that strategy is about managing new opportunities. The strategy that is chosen should be one that optimizes the resources available in order to achieve organizational goals and objectives. Gole (2005) proposes that strategic management is a process, directed by top management to determine the fundamental aims or goals of the organization, and ensure a range of decisions which will allow for the achievement of those aims or goals in the long-term, while providing for adaptive responses in the short-term. The three core areas of corporate strategy: strategy analysis, strategy development and strategy implementation. Strategic analysis deals with examining the environment within the organization operates.

Mintzberg and Quinn (1998) identify four interrelated definitions of strategy as a plan, perspective, pattern and position. As a plan, it is some sort of consciously intended course of action, a guideline to deal with a situation. As a pattern it integrates an organization's major goals, policies and actions sequences into a cohesive whole. Strategy as a position becomes a mediating force or match between the organizations and its external and internal environments. Strategy as a position looks outside the organization seeking to

locate the organization in the external environment and it in a cohesive position. Strategy as a perspective looks at the organization. In this respect it is a concept and a perspective shared by the members through their intentions and actions. While plans may go unrealized, patterns may appear without preconception and so the distinction between intended strategies and realized strategies is an important one. In fact, what managers say will be the company's action and what really happens is not always the same thing and in this context, realized strategies assume greater importance than intended ones (Costa and Teare, 1995).

2.2 Strategy Implementation

Strategy implementation is the process of putting strategies and policies into action through the development of programmes, budgets and procedures (Bradford *et al* 2000).

Strategy implementation is an enigma in many companies. According to Judson, (1991), only one in every ten companies that do an effective job of formulating strategy and equally on effectively implementing it. For the rest, presumably, the well –crafted strategy is lost in the press of day- today tactical concerns or its left to languish in a report on the dusty book shelf of the chief executive officer CEO. Yet very few people would deny that, in today's fast moving and fast changing business world, strategy, with its long- range perspective, is critical.

Organizations seem to have difficulties in implementing their strategies, however. Researchers have revealed a number of problems in strategy implementation. The reasons for this are varied, but most hinge on the fact that strategy implementation is resource intensive and challenging (Gurowitz, 2007). None the less strategic planning remains a

top priority among successful private universities based on the fundamental notion that an effective strategy offers unique opportunities for market differentiation and long-term competitive advantage. Based on this, many private Universities are now asking which are the best tools and methodologies to enable effective strategy implementation (Beer and Eisenstant, 2000). Implementing strategies successfully is vital for any organization, either public or private. Without implementation, even the most superior strategy is useless (Alexander, 1991). The notion of strategy implementation might at first seem quite straightforward: the strategy is formulated and then it is implemented. Implementing would thus be perceived as being about allocating resources and changing organizational structure. However, transforming strategies into action is a far more complex and difficult task.

According to Pearce and Robinson (2004), Implementation stage is commonly referred to as action phase of the strategic management process. While other phases of formulation, analysis and choice of strategy are important, these phases cannot ensure success alone. A strategy must be translated into action, and that action must be carefully implemented. Implementation of strategy is initiated in three interrelated stages which include identification of measurable, mutually determined annual objectives, development of specific functional strategies and communication of policies to guide decisions. Implementing strategies successfully is about matching the planned and the realizing strategies, which together aim at reaching the organizational vision. The components of strategy implementation – communication, interpretation, adoption and action are not necessarily successive and they cannot be detached from one another.

2.2.1 Performance Contracting as a Strategy

The fundamental principle of performance contracting is the devolved management style where emphasis is management by outcome rather than management by processes. It therefore provides a framework for changing behaviours in the context of devolved management structures (Kenya, Sensitization Training Manual, 2004). The system was adopted in developing countries in Africa, such as Nigeria, Gambia, Ghana and Kenya, as a way of responding to taxpayer needs. Certainly, a number of countries have successfully improved performance in their public sector by carefully examining and adapting PC to their needs from the lessons learnt from international experiences.

The concept of PC has been effectively adopted in Bangladesh, China, India, Korea, Pakistan and Sri Lanka; also in Argentina, Brazil, Bolivia, Chile, Colombia, Mexico, Uruguay and Venezuela. Other countries such as UK, USA, Canada, Denmark, Finland, Malaysia and others have successfully incorporated PC in their management systems. In Africa, PC has been used in Benin, Ghana, Morocco and Senegal (Trivedi, 1990). In implementing PC, the issues that being addressed include; improving performance to deliver quality and timely services to citizen, improving productivity in order to increase wealth, reducing or eliminating reliance on the exchequer, instilling a sense of accountability and transparency in service delivery and the utilization of resources and giving autonomy to government agencies without being subjected to the bureaucracies and unnecessary procedures (AAPAM, 2006).

The first country in Africa to adopt performance contract scheme was Senegal, where improved performance were noted in the Ministry of Finance as seen in the reduction of the operational costs. In Morocco, performance contracting was adopted at a time

when the public enterprises committed over 12% of the countries gross domestic product (GDP) in form of subsidies and other support programs. Once performance contract was initiated and signed, the public enterprises recorded improvement in service delivery, cost reduction and greater autonomy for management (SCSTM, 2005).

2.3 Strategy Implementation Challenges

Formulating appropriate strategy is not enough. For effective strategy implementation, the strategy must be supported by decisions regarding the appropriate organization structure, reward system, organizational culture, resources and leadership. Just as the strategy of the organization must be matched to the external environment, it must also fit the multiple factors responsible for its implementation (Bateman and Zeithaml, 1993). A link exists between performance contracts and strategic planning. Strategic planning is process by which an enterprise develops a vision of the future and draws up goals, strategies and action plans for realizing the vision. Performance contracts are drawn from strategic plans which are based on strategies and targets. Therefore factors that affect implementation of strategy affect performance contracts. According to Jones & Hill (1997), implementation of strategy is a way in which a company creates the organizational arrangement that allows it to pursue its strategy most effectively.

2.3.1 Organizational Culture

Culture is a set of assumptions that members of an organization share in common (shared beliefs and values). Organizational culture helps in nurturing and dissemination of core values. Implementation of new strategy will be concerned with adjustments in the structure, employees, systems and style of doing things in order to accommodate the

perceived needs of the strategy (Pearce and Robison, 2007). Wehrich & Koontz (1993) look at culture as the general pattern of behaviour, shared beliefs and values that members have in common. Culture can be inferred from what people may do and think within an organization setting. It involves the learning and transmitting of knowledge, beliefs and patterns of behaviour over time. This means organizational culture is fairly stable and does not change fast. It sets the tone for the company and establishes rules on how people should behave. The top managers create a climate for the organizations and their values influence the direction of the firm. Therefore for PC implementation to be effective there should be a fit between the new changes and the firm's culture.

One of the main reasons for poor performance, low management morale and lack of management accountability in public enterprises is the tendency of politicians and ministries to treat enterprises as government departments in addition to requiring major decisions to be made outside the enterprise. PC should include clear statements of the powers and authority of the enterprise management to make decisions, and any limits or exceptions to this authority. In implementing PC, it is necessary to have an inter-agency coordinating committee to ensure that all outstanding issues outside the control of a firm are resolved and that the demands on the public enterprise are properly coordinated. Enterprises should have specific ministry/agency to which they report to in order to avoid conflict that can arise with several "masters" to serve (Song, 1983).

2.3.2 Organizational Structure

Organizations should be structured in such a way that it can respond to pressure to change from the environment and pursue any appropriate opportunities which are spotted (Lorsch 1967). Thompson and Strickland (1980) notes that while strategy formulation

requires the abilities to conceptualize, analyze and judge, implementation involves working with and through other people and institutions of change. It is important therefore that in designing the structure and making it operational, key aspects such as empowerment, employee motivation and reward should be considered. Owen (1982) agrees that strategy and structure need to be matched and be supportive of each other in order to achieve objective set. According to (Thompson 1997) structure is the means by which the organization seeks to achieve its strategic objectives and implement strategies and strategic changes. Strategies are formulated and implemented by managers operating within the current structure.

The structure of an organization is designed to breakdown how work is to be carried out in business units and functional departments. People work within these divisions and units and their actions take place within a defined framework of objectives, plans, and policies. Successful strategy implementation depends on a large part on how a firm is organized. The structure helps an organization identify its activities and the way in which it will coordinate them to achieve the firm's strategic objective. (2007).

Structure also influences how objectives and policies will be established, how resources will be allocated and the synergy across the departments. It is necessary for an organization to rationalize its operational/management structures so as to streamline it to be effective in strategy execution. This would include transfers, mergers, and creation of new departments and divisions for effective management. The structure also affects the communication from the management to the employees and vice versa and therefore the structure been adopted by the ministries should be one which allows the employees to be involved in strategy formulation and implementation so that they do not resist the

implementation of the desired strategies. The organization structure therefore should fit with the intended strategies (Birnbaum, 2000).

2.3.3 Leadership and Management

Organizational structure on its own is not sufficient to ensure successful implementation of a strategy, effective leadership is required. Bateman and Zeithaml (1993) define a leader as one who influences others to attain goals. Leaders have a vision and they move people and organizations in directions they otherwise would not go. According to Bateman and Zeithaml (1993) effective managers are not necessarily true leaders however the positions they occupy offer them an opportunity for leadership. The two authors go further to give a comparison between managers and leaders. Managers deal with day-to-day complexities of organizations while true leaders manage effectively and devote their attention to orchestrating change. Managers engage in planning and budgeting routines, structure organizations, staff it with capable people and monitor activities. Leaders on the other hand set the direction of organizations by creating a vision for it, inspire people to attain the vision and keep people focused on moving the organization towards its ideal future, motivate them to overcome whatever obstacles are in the way, make important decisions that may rock the boat but are humane, moral and right. They also foster innovation and attainment of long term goals. Leadership is therefore the process in which an individual influences other group members towards the attainment of groups or organizational goal (Shackleton, 1995).

In a competitively chaotic environment, one essential contribution of a strategic leader is to provide and share a clear vision, direction and purpose for the organization (Thompson, 1997). Leadership is the key to effective strategy implementation. The role

of the Chief Executive is fundamental because a CEO is seen as a catalyst closely associated with and ultimately is accountable for the success of a strategy. The CEO's actions and the perceived seriousness to a chosen strategy will influence subordinate managers' commitment to implementation.

2.3.4 Effective Performance Management

According to Cummings and Worley (2005), performance management is an integrated process of defining, assessing and reinforcing employee work behaviors and outcomes. Performance management includes practices and methods for goal setting, performance appraisal, and reward systems which influence the performance of individuals and work groups. Wilson (2005) defines performance management as a systematic approach to improving individual and team performance in order to achieve organizational goals. It is a practice through which work is defined and achieved.

Performance management process has gained prominence in the recent years as means of providing a more integrated and continuous approach to the management of performance than it was before where it was often an isolated activity done only once a year. The concept of performance management is based on the principle of agreement rather than management by command and it emphasizes on development, integrating individuals and corporate objectives together (Armstrong, 2006).

Supervisors have conducted performance appraisals for years. Employees have attended training sessions for years. Organization members have worked long, hard hours for centuries. Processes, such as planning, budgeting, sales and billings have been carried out for years in organizations. But all too often, these activities are done mostly for the sake

of doing them, not for contributing directly to the preferred results of the organization. Performance management reminds us that being busy is not the same as producing results. It reminds us that training, strong commitment and hard work alone are not results. The major contribution of performance management is its focus on achieving results for example developing useful products and services for customers inside and outside the organization. Performance management therefore redirects organizational efforts away from “being busy” towards effectiveness. The level of success of a strategy depends on the degree of participation in planning and on acceptance of the goals, indicators and targets set. Therefore effective implementation of strategy plan will be successful if it rests on meetings and consensus between the management and staff, rather than a top down imposition of plans and targets (Song, 1983).

2.3.4.1 Goal/Target Setting

The level of success of a strategy depends on the degree of participation in planning and on personal acceptance of the goals, indicators and targets set. Therefore effective implementation of PC is likely to be successful if it rests on meetings and consensus between the enterprise management and their government supervisors, rather than a top down imposition of plans and targets (Song, 1983). This also applies to the lower levels of the enterprise. PC should be based on corporate plans as result of participative planning process which will gain more support from managers. On the other hand if a corporate plan is drafted by an outside consultant or a small group at the top, it is not likely to achieve targets or commitment from employees in meeting the targets that have been set (Musa, 2001).

Goal/Target setting involves managers and subordinates jointly establishing and clarifying employee goals. It affects performance through influencing what people think and do by focusing their behaviour in the direction of the goals, energize behavior, motivate people to put forth the effort to reach difficult goals that are accepted and clarifies duties and responsibilities. The first element of goal/target setting is establishing goals that are perceived as challenging but realistic and to which there is high level of commitment. Employee participation is likely to be effective if employee involved and will therefore support goal setting. Participation in goal setting is likely to be seen as legitimate, resulting in the desired commitment to challenging goals (Cummings and Worley, 2005).

2.3.4.2 Performance Appraisal/Review

Performance appraisal is feedback system that involves the direct evaluation of individual performance by a supervisor, manager or peers. Most organisations have some kind of evaluation that is used for performance feedback, pay administration and in some case counselling and developing employees. Thus performance appraisal represents an important link between goal setting and process and reward systems. Managers should do three things well in the process of performance management. These are to define performance through goal setting, measures and assessment; facilitate performance by identifying obstacles to good performance and providing resources to accomplish objectives; and encourage performance by providing a sufficient number of rewards that people care about and doing so in timely and fairly manner (Cummings and Worley, 2005).

2.3.4.3 Reward/Sanctions Systems

The execution of a strategy depends on individual members of organization especially key managers. Motivating and rewarding good performance for individuals and units are key success factors in effective strategy implementation (Shirley, 1983). According to Cummings and Worley (2005), organizational rewards are powerful incentives for improving employee and work group performance. It can also produce high levels of employee satisfaction. Reward systems interventions are used to elicit and maintain desired levels of performance. To the extent that rewards are available, durable, timely, visible and performance contingent, they can reinforce and support organizational goals, work designs and employee involvement.

Reward system should align the actions and objectives of individuals with objectives and needs of the firm's strategy. Financial incentives are important reward mechanisms because they encourage managerial success when they are directly linked to specific activities and results. Intrinsic non-financial rewards such as flexibility and autonomy in the job are important managerial motivators. Negative sanctions such as withholding of financial and intrinsic rewards for poor performance are necessary to encourage managers' efforts (Pearce and Robinson, 2007).

2.3.5 Resources and Capacity

According to Thompson *et al.* (2007), effective strategy implementation depends on competent personnel and effective internal organizational systems. No organization can hope to perform the activities required for successful strategy implementation without attracting, motivating and retaining talented managers and employees with suitable skills and intellectual capital. The task of implementing challenging strategic initiatives must be

assigned to executives who have the skills and talent to handle and can be counted on to turn decisions and actions into results to meet established targets.

Without a smart, capable result-oriented management team, the implementation process ends up being hampered by missed deadlines, misdirected or wasteful efforts. Building a capable organization is thus a priority in strategy execution (Cummings and Worley, 2005). High among organizational building priorities in the strategy implementation is the need to build and strengthen competitive valuable competencies and organizational capabilities. Training therefore becomes important when a company shifts to a strategy that requires different skills, competencies and capabilities.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the proposed research design, data collection and the techniques for data analysis that was used.

3.2 Research Design

The research was a case study. A case study is an in-depth investigation of an individual, institution or phenomenon (Mugenda and Mugenda, 2003). The primary purpose of a case study is to determine factors and relationships among the factors that have resulted in the behavior under study. The study was used to identify the challenges of implementing performance contracting strategy at the Ministry of State for Public Service. In this light therefore, a case study design was deemed the best design to fulfill

the objectives of the study as the results were to provide an insight in understanding the challenges been faced by Ministry of state for public service in performance contracting strategy.

3.3 Data Collection

The study used primary data which was collected using an interview guide, on strategy implementation process and its challenges in the Ministry of State for Public Service. An interview guide is a set of questions that the interviewer asks when interviewing (Mugenda and Mugenda, 2003). Open-ended questions was used to collect primary data from interviewees. The researcher administered the instrument in person in order to check for completeness prior to collection. The respondents interviewed were those involved with formulation and implementation of organization's strategies. This was possible to obtain data required to meet specific objectives of the study. The interviewees were the Heads of various Departments in charge of administration, Management Consultancy Services, Human Resource Management, Human Resource Development, Government Training Institutes and Permanent Public Service Remuneration Review Board. These were considered to be key informants for this research. In addition the departments in which the respondents work in are the key developers' and implementers of the Ministry strategies.

3.4 Data Analysis

Content analysis was used to analyze the data collected from the respondents. Kothari (2004) described content analysis as a method of analyzing contents of documentary materials such as books, journals, magazines, newspapers and the most importantly contents of verbal material whether spoken or written. The content analysis provided the

researcher with a qualitative picture of the respondent's concerns, ideas, feeling and attitudes. It was used to identify the intentions and focus on communication trends of respondents.

CHAPTER FOUR RESEARCH, FINDINGS AND DATA ANALYSIS

4.1 Introduction

The objective of the study was to establish the challenges faced in implementing performance contracting strategy in the Ministry of State for Public Service. This chapter presents the data analysis and findings with regard to the objective and discussion of the same. The respondents comprised the Director Human Resource Management, Director Management Consultancy Services, Director Human Resource Development, Chief Finance Officer, Head Accounting, Secretary Permanent Public Service Remuneration Review Board, Directors, of Government Training Institutes, Embu, Mombasa, Matuga and Baringo and head of Administration. In total, the researcher interviewed nine respondents out of the intended eleven intended respondents. This represented 81.8% response rate.

4.2 The Respondents Profile

The respondents interviewed were heads of Departments to ensure that the sample is representative. They had university degrees with seven of them having a master's degree as well and that enabled the researcher to get the required results. The respondents had different educational backgrounds that ranged from IT, Accounting, Law, Finance, Economics and HR. The different educational background for the respondents ensured that the researcher achieves the objectives as information from the respondents with knowledge in one field was sourced. In addition, the respondents had worked in the organization between two and seven years. With this solid background, it was felt that the respondents were knowledgeable enough on the issue of Implementation of Performance Contracting Strategy of the Ministry of State for Public Service.

4.3 Strategy implementation

Regarding the duration the Ministries strategy covers, the respondents said the strategy covers a period of 5 years and the same strategy is reviewed after the expiry of the 5 year period. The respondents indicated that the Ministry uses the top-down approach though in some cases bottom –up approach was adopted depending on the circumstances. The respondents indicated that top management first of all owned the strategic plan and then linked it to performance contracts. The top management spearheaded strategy formulation and supported its implementation by way of follow-up and control. For effective and up to date strategies the respondents were of the opinion that everybody should be made aware of the annual operation plan, improve communication on strategy implementation downwards and making use of competent staff. This will enable the management to keep

abreast with any issues that might emerge and recommend corrective measures before any damage is done and continuous internal review should be done regularly.

4.4 Challenges affecting implementation of performance contract

strategy

Formulating appropriate strategy is not enough. For effective strategy implementation, the strategy must be supported by decisions regarding the appropriate organization structure, reward system, organizational culture, resources and leadership. Just as the strategy of the organization must be matched to the external environment, it must also fit the multiple factors responsible for its implementation. For effective implementation of any strategy, it must be supported by decisions regarding the appropriate organization structure, reward system, organizational culture, resources and leadership. Just as the strategy of the organization must be matched to the external environment, it must also fit the multiple factors responsible for its implementation. Successful implementation of PC therefore, must consider issues central to its implementation which include, matching it to organizational structure, linking performance to incentives/sanctions, creating a supportive organizational culture among other issues.

4.4.1 Organizational Culture

Organizational culture describes the assumptions that an organizational employees share in common. Usually, organization values and culture are reflection of the organizations philosophy. They shape the strategic direction of the decision makers in managing an organization. It helps in nurturing and dissemination of core values. The Ministry's employees would have been accustomed to a particular culture and changing them to

implement the strategy difficult to the ministry. The respondents agreed that the culture in the Ministry affects implementation of PC strategy. The culture factors that were identified by the respondents varied and included the following: resistance to change, procurement, suspicion and the fear of the unknown. The respondents indicated that there is a certain number of senior staff members that are used to a certain way of doing things in the ministry and whenever new changes were introduced or change of strategy is required to capture a certain opportunity the same group will be slow in decision making that will lead to the loss of opportunity. The respondents observed that when employees were used to a given way of life or doing things normal new ideas were seen as a threat to the existing culture and will naturally resist the same.

The challenge brought about by culture includes; communication problems between the departments, administrative, hinders full implementation of performance contract strategy, delayed services and also poor service delivery. The respondents were in agreement that the challenges which they encounter pose challenges to the implementation of PC strategy as the it leads to delay in service provision, results to employees resistance to performance contracts because they did not understand it fully. There is need therefore for management to address resistance from staff and confusion created by the concept.

The Ministry has a coordinating committee to ensure that all outstanding issues are resolved and that the demands on the ministry are properly coordinated. This entails developing the strategy using the logical framework model that highlights goals, objectives, purpose and activities. This forms the basis for checking progress and indicators are also highlighted at each level.

4.4.2 Organizational structure

An organization structure describes how work is to be carried out in business units and functional departments. The structure helps an organization identify its activities and the way in which it will coordinate them to achieve the firm's strategic objective. It also provides managers with a vehicle to exploit fully the skills and capabilities of the employees with minimal costs and at the same time enhance the firm's capacity to achieve superior efficiency, quality, innovation and customer responsiveness. The ministry's structure hinders PC implementation as it does not allow the managers to carry out their mandate freely while at the same time the departments which are tasked with implementation of PC suffers from external influence.

Organizations should be structured in such a way that it can respond to pressure to change from the environment and pursue any appropriate opportunities which are spotted (Lorsch 1967). Thompson and Strickland (1980) notes that while strategy formulation requires the abilities to conceptualize, analyze and judge, implementation involves working with and through other people and institutions of change. It is important therefore that in designing the structure and making it operational, key aspects such as empowerment, employee motivation and reward should be considered.

The respondents indicated that the Ministry's structure in some cases has posed a challenge to performance contract strategy implementation. The structure of the Ministry is designed to breakdown how work is to be carried out in business units and functional departments and not to be an impediment in the developing or implementing the Ministry's strategies. It was observed that the vertical structure that has been adopted by the Ministry though good for controlling the activities of the Ministry, has impacted its

decision making process. Its response structure was found to be slow and in some cases lead to the loss of opportunities. It is important therefore that in designing the structure and making it operational, key aspects such as empowerment and communication process is considered. Majority of the respondents were of the opinion that the ministry structure allow for breakdown of work on how the performance contract will be implemented as all departments picks what is relevant to its functions and work has been broken down to targets for specific department. It was observed that the top-down structure that has been adopted by the Ministry though good for controlling the activities of the organization, has impacted its decision making process. Its response structure was found to be slow and in some cases lead to poor decision making. It is important therefore that in designing the structure and making it operational, key aspects such as empowerment and communication process is considered.

The results on whether the structure of the ministry affect how objectives and policies will be implemented was that, all the respondents said it does affect because every department has its own roles to play within the ministry and also the shorter the structure the faster the establishment and implementation of decisions in the ministry. The respondents intimated that communication should be a two way so that it can provide information to improve understanding and responsibility, and to motivate staff. Also, communication should not be a once-off activity focusing on announcing the strategy. It should be an on-going activity throughout the strategy implementation process. Organizational communication plays an important role in training, knowledge dissemination and learning during the process of strategy implementation. In fact, communication is pervasive in every aspect of strategy implementation, as it relates in a complex way to organizing processes, organizational context and implementation

objectives which, in turn, have an effect on the process of implementation. The ministry's structure has led to negative impact on the performance and at the same time the feedback mechanism is not well integrated.

4.4.3 Leadership and Management

The researcher seeks to establish from the respondents if leadership was a challenge to the process of strategy implementation. To this extent, the respondents were of the opinion that indeed leadership was a big challenge to the process. They supported this by pointing out the various kinds of challenges faced by the ministry that resulted from the leadership in place were rigidity and bureaucracy together with the failure to embrace new ideas and information technology, some of the managers have been known to lack expected competence to ensure actualization of the strategies, management resistance to change and new ideas and lack of visionary leadership together with poor leadership skills and knowledge.

On the challenges posed by ineffective coordination and poor sharing of responsibilities, majority of the respondents said that they face the challenges while some said they do not face any challenge. The findings shows that lack of coordination and sharing of responsibilities in the ministry hinders effective implementation of the set strategies and therefore the managers should put in place clear mechanisms to ensure that there is proper coordination in the ministry. Regarding the ministry's top management goodwill and ownership to ensure the success of performance contract strategy, the respondents said they have the goodwill and ownership. The response indicates that the top managers would like to see successful implementation of the strategy and therefore necessitates ownership of the performance contract strategy.

4.4.4 Effective performance management

Performance management is an integrated process of defining, assessing and reinforcing employee work behaviors and outcomes. Performance management includes practices and methods for goal setting, performance appraisal, and reward systems which influence the performance of individuals and work groups. Performance appraisal is feedback system that involves the direct evaluation of individual performance by a supervisor, manager or peers. Thus performance appraisal represents an important link between goal setting process and reward systems. Most of the respondents said that review/appraisal in the ministry is done on quarterly basis. The ministry needs determines the frequency of strategy communication to those charged with implementing the strategy set and this may have prompted the organization to be reporting on quarterly inform of quarterly reports, balance score card which forms the basis of performance management as well as annually when doing performance reporting. The reports ensure that the organization is on track to achieving its objectives as they can deal with any challenge on the way which may affect the attainment of its objectives.

Training is a very important aspect in performance management. To reduce resistance and negative attitude towards performance contract, employees should be sensitized on the importance of performance contract. This also helps organizations meet their organizational objectives. The respondents said that the ministry trains employees on performance contract. The findings imply that although the employees were trained on performance contract, the extent did not cover all the employees. There is therefore need

for the ministry's management to train more employees so as to improve the implementation of performance contract.

The ministry's employees are the ones who carry out the task of implementing the approved strategies of the ministry and therefore their commitment to ensuring that the strategies approved succeed depends on whether the employees were involved when designing the performance contract strategies. The findings from the respondents indicated that the staffs were involved in the formulation and implementation of the performance contract strategy and therefore they are highly committed to the process given the quality of ideas and strategies they came up with for the various programmes. However, some of the respondents said they were not involved but rather the managerial level employees were involved. The findings show that the level of employee involvement in strategy formulation and implementation was low thus these could hinder the implementation of the strategy as they are supposed to implement the strategies. Therefore, effective implementation of PC strategy rests on meetings and consensus between the employees and their supervisors, rather than a top down imposition of plans and targets.

Target setting involves managers and subordinates jointly establishing and clarifying employee goals. It affects performance through influencing what people think and do by focusing their behaviour in the direction of the goals, energize behaviour, motivate people to put forth the effort to reach difficult goals that are accepted and clarifies duties and responsibilities. Participation in goal setting is likely to be seen as legitimate, resulting in the desired commitment to challenging goals. The respondents indicated that targets set for the employee's affects performance contract strategy. This implies that employees

may not embrace performance contract because they find the targets set are high. It is therefore important that ministry's management involve employees in setting and agreeing on the targets. The findings show that there is no policy guide on rewards and therefore the ministry should set up reward mechanism to motivate employees towards achievements of organizational targets.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

This study revealed several challenges faced in implementing Performance Contracting Strategy in the Ministry of State for Public Service. The respondents were the Heads of Departments and had university degrees although some of them had masters degree and therefore the respondents were competent enough to answer the questions. The respondents had worked in the organization for between two and seven years thus they have sufficient knowledge regarding the implementation of PC strategy as some of them have been in the ministry since the introduction of the strategy. Strategy implementation entails coming up with strategies and policies into action through the development of programmes, budgets, communication and procedures.

The findings from the study were that the ministry's strategy covers a period of five years then it is revised at the end of the period. The ministry uses the top-down approach where the top managers outline the strategies to be implemented to the employees. As a result the employees feel that they need to be involved more by the top managers especially in strategy policies that affect them. As a result of the non-involvement of the employees in the development of the strategies, implementation of these strategies has faced challenges such that the employees are hesitant to act.

The findings indicated that the culture been practiced in the ministry affects implementation of the performance contract strategy and the challenges brought about by the culture include communication problems between the departments, administrative,

hinders full implementation of performance contract strategy, delayed services and also poor service delivery. that the ministry has instituted a coordinating committee to ensure that all outstanding issues are resolved and that the demands on the ministry are properly coordinated. The ministry's structure was found to be an impediment on how the performance contract strategy will be carried out and these therefore impacts how the various departments will relate when implementing the strategy. The structure of the ministry affect the communication as the feedback mechanism is not well integrated thus inhibiting the flow of information in the Ministry.

Ineffective coordination and poor sharing of responsibilities in the ministry leads to some employees not knowing what to do and therefore the managers should put in place clear mechanisms to ensure that there is proper coordination in the ministry. The ministry review/appraise its performance on quarterly basis. The shorter period is preferred as it enables the ministry determine areas where targets are not being met and make the necessary adjustments. A slight majority of the employees were trained on performance contract strategy. It is apparent that training on performance contract is seen as tool to help the organization achieve its strategies. However, some of the employees were not trained on performance contract hence the organizations may not be able to get the full benefits of performance contracting.

It was noted that the respondents said the employees were involved in the formulation and implementation of the performance contract strategy and these could hinder the implementation of the strategy as they are supposed to implement the strategies. The targets set for the employees affect implementation of PC strategy as majority of the respondents said they are not involved in setting the targets and the set targets could be

high. Policy guide on reward is a major weakness in the ministry as it does not have policy guide on rewards. The ministry should set up reward mechanism to motivate employees towards achievements of organizational targets.

In the pursuit of achieving implementation of performance contract strategy success, the ministry has faced a number of challenges. The challenges ranged from the organizations structure, leadership and management, unadaptive organizational culture and effective performance management. It was also noted that the organization structured should be restructured to facilitate quick response than is currently witnessed. The respondents observed that in the ministry, some managers have not been enthusiastic enough in implementing some of the ministry's strategies and coming up with strategies to counter the challenges that face the ministry. One essential contribution of a strategic leader is to provide and share a clear vision, direction and purpose for the organization.

5.2 Conclusions

From the research findings and the answers to the research questions, some conclusions can be drawn about the study. Organizational culture, organizational structure, leadership and management and effective performance management affect successful implementation of performance contracting strategy in the Ministry of state for Public Service.

Performance contracting strategy is very vital for the success of any organization. From the findings of the study, it was established that the ministry's strategy covers a period of five years and that not all employees are involved in the strategy formulation and implementation. The culture being practiced by the ministry affects the implementation

of the performance contracting strategy which poses the challenge to the strategy implementation. The problems encountered by the ministry are further compounded by lack of a coordinating committee which coordinates the implementation of the strategy.

The structure of the Ministry poses a challenge as it affects how the objectives and the policies are established and also how communication is carried out in the ministry. The top-down structure that has been adopted by the ministry though good for controlling the activities of the organization, has impacted its decision making process. The ministry's leadership and management is a challenge to the process of strategy implementation as it affects coordination and sharing of responsibilities.

5.3 Recommendations

The study recommends that the top management in the ministry should change the culture which they have been adopting in order to change the way things have been done previously so that they can ensure that the strategy succeeds. The ministry should also put in place a coordinating committee to ensure that the demands in the ministry are properly coordinated. The ministry should also relook its organizational structure so that it can be efficient in the flow of information among the organizational staff so that it can allow breakdown of work on performance contract strategy and increase communication in the Ministry.

The leadership and management of the ministry should not be an impediment to the implementation of performance contract strategy and therefore it is recommended that they should be at the forefront in ensuring that there is effective coordination and sharing of responsibilities in the Ministry. The study found out that not all the employees were involved in strategy formulation. It is therefore recommended that all the employees

should be part and parcel of the process and therefore the commission should ensure that when they are designing and compiling a strategy to be implemented. All employees should also be trained so that all understand the purpose of performance contract, its benefits and how it will be implemented within the ministry. Training will also assist improve the implementation of performance contract. Target setting affects successful implementation of performance contract strategy to a great extent and therefore the employees should be involved in setting the targets so that only achievable targets are set.

5.4 Recommendations for further research

The study confined itself to the Ministry of State for Public Service. This research therefore should be replicated in other Ministries so to establish whether there is consistency among the Ministries on the challenges affecting the implementation of performance contracting.

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APPENDIX: INTERVIEW GUIDE

The interview guide will seek to achieve the following objective;

To determine the challenges facing the ministry of state for public service in the implementation of performance contracting strategy.

Interview Questions

The following sections provide sample questions to be used in evaluating challenges of performance contracting strategy implementation at the Ministry of state for Public Service.

Background Information on the interviewees

- What current position in the organization do you hold?
- For how long have you been holding the current position?
- For how long have you worked in this Ministry?
- What is your highest level of education?

Strategy implementation

- What duration does the Ministry strategy cover?
- How long does it take to review the strategic plan?
- What approach can you categorize the strategy implementation process of the firm to take?
- What level of involvement of employees does the strategy implementation take?

Challenges to implementation of performance contracting strategy

(a) Organizational Culture

1. Has the culture been practiced in the Ministry affected implementation of the PC strategy?
2. What challenges are brought about by the culture?

3. Does this pose a challenge to the process of strategy implementation?
4. Does the tendency by the politicians and ministries to treat enterprises as government departments in addition to requiring major decisions to be made outside the enterprise affect implementation of PC strategy?

(a) Organizational Structure

1. Does the structure in your Ministry pose a challenge to strategy implementation?
2. Does the Ministry structure allow for breakdown of work on how the PC strategy will be carried out in business units and functional departments?
3. What approach can you describe the organization strategy formulation to adopt? Top down or bottom up?
4. Does the structure of the Ministry affect how the objectives and policies will be established and implemented?
5. How does the Ministry's structure affect communication from the management to the employees and vice versa?

(a) Leadership and Management

1. Is leadership a challenge to the process of strategy implementation?
2. Do you face the challenges posed by ineffective coordination and poor sharing of responsibilities?
3. Do the Ministry top managers have the goodwill and ownership to ensure the success of PC strategy?

(a) Effective Performance Management

1. How often is performance review/appraisal carried out within the organization?
2. Does the Ministry train employees on PC strategy implementation?
3. Were the employees involved in the formulation and implementation of PC strategy?

4. Does the target set for employees affect the implementation of PC strategy?
5. Is there a policy guide on reward for meeting performance targets?

