# EMPLOYEE PERFORMANCE MANAGEMENT PROCESS: A CASE STUDY OF POSTAL CORPORATION OF KENYA

SUBMITTED BY

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# DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the University of Nairobi for academic credit.

Signed: ______________ Date: 26.11.08

**Mohamed S. Abdi** **D61/P/9008/01**

This project has been presented for examination with my approval as appointed supervisor

Signed: ______________ Date: 26.11.08

**Mr. George Omondi** **Supervisor**

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May the almighty God bless you.

## DEDICATION

I would like to dedicate this study to the managers in the public sectors who are not afraid of change.

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## ABSTRACT

In the endeavor to transform the public sector from the complacent working culture to a business oriented culture the Government has developed policies for the public sector that would endear it to the public and customers. Performance management was one of the strategies. The study was conceived out of the need to establish performance management process at the Postal Corporation of Kenya and to determine the factors that influences the performance management process. To achieve these objectives the research project was designed as a case study which made use of both secondary and primary data. Primary data was collected through an interview which was conducted with the help of an interview guide.

The study has discussed the performance management process and how it has been manifested in the public sector with reference to Postal Corporation of Kenya. The study established that the performance management process in place at Postal Corporation of Kenya has been adopted in line with the Government directive as well as being a means of gaining competitive advantage over its competitors. The study also identified several factors which influence performance management. These factors included organisation culture, employees' resistance to change, lack of coherent change management strategies and complexity of the performance management tools.

The study recommends that the management shed off its bureaucratic tendencies and adopt the $21^{st}$ Century business practices to enable the Corporation compete in the global marketplace. There is also need for the Corporation's management to fully embrace performance and reward management systems to enhance productivity.

# CHAPTER ONE: INTRODUCTION

## 1.1 Background

Modern organization have realized the need to embrace performance management which is an all encompassing system that allow individuals and teams to performance their tasks in a clear way by first knowing the expectations of their supervisors and mutually agreeing on the desired objectives that emanates from the company goals. Performance is defined as the ways in which organizations, teams and individuals get work done while management involves planning, organizing, directing, controlling, coordinating activities in order to achieve the desired objectives of an organization. The basis of performance management is the devolved management style where emphasis is management by outcome rather than by processes.

Trivedi (2007) asserts that the objective of performance management is to stimulate increase in autonomy as well as accountability. Unlike privatization, where the public assets are privatized, performance management seeks to privatize the public style of management. He further asserts that it's an attempt to move public style of management away from control by procedures to control by results. It provides a framework for changing the behaviors in the context of devolved management structures. Enterprises view performance management as a vehicle for articulating clearer definition of objectives and supporting new management monitoring and control methods (Blasi, 2002).

### 1.1.1 Performance Management

Performance management is one of the most important and positive developments in human resources management in the recent years. It was first coined by Beer and Ruh (1976) but became recognized in mid-1980s (Armstrong and Baron, 2004). Its recognition grew out of the realization that a more continuous integrated approach was needed to manage and reward performance. Performance management is the systematic process by which an organization involves its employees as individuals and members of a group in improving organizational effectiveness in the accomplishment of its mission and goals. Performance based management is a systematic approach to performance improvement through an ongoing process of establishing strategic performance objectives, measuring performance, collecting, analyzing, reviewing and reporting performance data and using these data to drive performance improvement. It is also concerned with improving individual and team performance. The process of performance management involves various activities which are highly interrelated. These processes and activities include; agreeing on performance standards and objectives, conducting performance and development review, measuring performance and finally establishing areas of good performance for recognition and where there is under performance for control purposes. Other activities that forms part of the performance process include coaching and counseling and providing a 360 degrees feedback. To be effective, performance management should be linked to the organizational strategic plan.

In establishing a performance based management program it is necessary to define the organizational mission and strategic performance objective. An organization should have clear objectives and standards that emanates from the company's strategic plan and should lay out how it intends to achieve them. Porter (1985) stated that performance management can only be effective where the organization has a clear corporate strategy and has identified the elements of its overall performance which it believes are necessary to achieve competitive advantage. Objectives refer to things to be accomplished over a period of time. Every employee in the organization should know what objectives they are meant to achieve and thus the employees are able to know on what basis their performance will be assessed. Objectives act as targets, which employees should strive to achieve. Good performance objectives should be consistent with the overall organization objectives, clear and well defined, challenging to stimulate high standards of performance, measurable and related to quantified and qualitative performance measures, achievable in that they should be within the individuals ability and time bound. Bates and Holton (1995) stated that performance is a multi-dimensional construct, the measurement of which varies, depending on a variety of factors. They stated that it's important to determine whether the measurement objective is to assess performance outcomes or behaviours.

Performance management is essentially a human resource activity that should focus on the business with the ultimate aim of improving performance by acquiring and developing a competent, well motivated and committed workforce (Armstrong & Baron,2004). Guest (1996) states that good performance is attained through human resources managers building firm commitment, quality and flexibility among the staff and with the organization's processes. He affirms that the human resource strategy must fit into the wider business strategy. Apart from clearly stating the performance objectives the process of performance management involves various other activities which are highly interrelated. These processes and activities which are the cornerstones of a successful performance system are agreeing on the performance standards, conducting performance and development review, measuring performance and establishing areas of good performance and performance gaps for control purposes. Setting performance objectives and standards are critical process of installing a successful performance management system in any enterprise. This will assist in simplifying the performance and development reviews when conducting the periodic reviews in an organization by comparing actual results with set standards.

In developing countries, concerns of most government policy makers in the 1990s were the poor governance in the public sector. The underlying reason for this concern was the poor management and lack of governance in public organization that led to massive wastage and open looting of government resources by cronies of powerful public officials. In Kenya, public corporations were established with the expectation that they would earn a surplus and also accomplish other societal objectives. Contrary to these expectations most of the parastatals had become a drain to the exchequer for which they solicit financial support whenever they go under. To address this problem, the Government through the Vision 2030 (GOK, 2003) identified state corporations as one of those sectors that require urgent reforms. To effect these changes the Government introduced performance management. This was contained in the Legal Notice No.93 of the State Corporations Performance Contracting Regulations.

The initial phase of the Performance Contract was signed by 27 Government agencies in 2004.During this period the government increased its role in the management of the public sector and appointed numerous organs to oversee the performance of state corporations. These include the Efficiency Monitoring Unit, State Corporations Audit, Parastatal Reforms Secretariat amongst others. Several workshops and seminars were organized by the government to sensitize managers of public organizations on prudent management of public enterprises that included the implementation of performance contracts in their organizations. Therefore performance management in public organisations is normally seen in terms of fulfilling the requirements of performance contracts between employees in the public sector and the corporations.

### 1.1.2 Postal Corporation of Kenya

Postal Corporation of Kenya was established by the Postal Corporation Act 1998. It was a unit of the now defunct Kenya Posts and Telecommunication Corporation that was split into 3 entities of Postal Corporation of Kenya, Telkom Kenya and Communication Commission of Kenya. It is one among 240 parastatal companies formed as a public utility organization meant to provide communication and financial services to the Kenyan public at a subsidized rate. The Corporation was established with the objectives of providing communication, financial and distribution services to the country. The Corporation has over the years endeavored to provide these essential services despite the environmental challenges that include rapid changes in technology, associated with this sector. Under the Government directives all state corporations were required to adopt performance management programs among other reforms aimed at achieving efficiency in state corporations.

The Corporation has four thousand and five hundred (4,500) employees spread across eight (8) regions of the country. Majority of the current staff were those inherited from the defunct Kenya Posts and Telecommunication Corporation and as a result have a lot of challenges that include public sector culture that inhibits change and creates resistance to new methods and systems. In the changing scenario, the employees are finding it difficult to cope with the new pressure of work occasioned by competition from private sector players in the liberalized economy. The corporation has embarked on rigorous training programs in order to prepare the staff for the emerging changes .These programs include computer appreciation courses as most of the corporation's systems are already automated, change management programs. customer care and leadership programs for management staff. However. the greatest challenge is the productivity as many staff are working below capacity hence their output is low. Equally important is the resistance to change by employees and managers, lack of buy-ins and internalization of key business concepts by staff and lack of autonomy and empowerment.

**1.2 Statement of the problem**

The concept of performance Management has been one of the most important and positive developments in the sphere of Human Resource Management in recent years. Performance management has grown out of the realization that a more continuous and integrated approach was needed to manage and reward performance. Crudely developed and hastily implemented performance related pay and appraisal systems were not delivering the results that, somewhat naively, people were expecting from them (Armstrong, 2001).

In its endeavor to transform itself from a civil service culture to a more business oriented culture the corporation developed policies that would endear itself to its customers. In the 2003/07 strategic plan the corporation envisaged a greater focus on service delivery and increased human capacity. This was the basis for the introduction of performance management in the corporation. Managing the performance of employees is important to the company is can help improve on the mistakes of the past and improve the overall performance of the organisation. In an attempt to maximize profits through effective use of the human resource, Postal Corporation of Kenya undertakes an evaluation to report job performance and to assist in the various functions pertaining to employees and their jobs. These functions include compensation, internal staffing and training needs analysis.

A few studies have been undertaken on employee performance management in different organizations. These include Kenya Commercial Bank (Njagi, 2003), Employee Performance in Court Registry (Oresi, 2005) and performance contract in Kenya Revenue Authority (Adundo, 2007) amongst others. However to the best of the researcher's knowledge, no study has been carried out on performance management practice in Postal Corporation of Kenya. This study therefore intends to address this knowledge gap by establishing the existence of employee performance management and the strategies used in implementing the program in Postal Corporation of Kenya.

## 1.3 Objectives of the Study

i. To establish employee performance management process in Postal Corporation of Kenya.

ii. To determine the factors that influence the employee performance management process in the Postal Corporation of Kenya.

## 1.4 Significance of the Study

Managers in public organizations will use the findings of the research to improve the management of their institutions

Employees will also benefit from the research to ensure that their performance enhances productivity.

Government will also benefit in that it will formulate policies aimed at regulating government institutions in Kenya as far as performance management is concerned.

# CHAPTER TWO: LITERATURE REVIEW

## 2.1 Introduction

Performance management is concerned with improving performance in order to achieve organizational, team and individual effectiveness. The dominant economic view of performance based contracts essentially draws from the theory of agency costs that arise due to separation of ownership and control of large corporations. In a typical agency framework the assumption is that there is a mismatch between the interest of the owners and that of managers who run the company. A performance contract addresses economic, social and other aspects an agency has to discharge for better performance.

Improving performance is only achievable where there are effective processes of continuous development. This addresses the core competencies of the organization and the capabilities of individuals and teams. Since performance management is concerned with satisfying the needs and expectations of various stakeholders such as owners, management, employees, customers, suppliers and the general public, employees should be treated as partners in the enterprise whose interests are respected. To this end, performance management encourages communication and involvement of managers and their team members in defining expectations and sharing information on the organization's mission. values and objectives (Lawson, 1995).

## 2.2 Performance Management

Performance management is a strategic and integrated approach to delivering sustained success to an organization by improving the performance of its employees through development of teams and individual capabilities. It relates to the management of employee performance through planning, developing, monitoring, evaluating and rewarding them for their contributions (Armstrong & Baron 2004). Planning involves setting performance expectations and goals for groups and individuals to channel their effort towards achieving organizational objectives. It requires involving the employees in setting these goals so that they understand what needs to be done and how well. It also requires establishing elements and standards of their appraisal plans. Performance objectives are the most important results for the individual employee to accomplish in the coming year. Performance objectives should stretch individuals to perform at high levels of productivity. These elements should be specific, measurable, achievable, relevant and time-bound. Most organizations have identified key result areas that need to be achieved by the employees. These are principal accountabilities that if the employee fails to achieve would be rated adversely and may determine his retention in the job in future.

Performance management is based on the premise that the clarification of corporate objectives, the institution of measures in pursuit of objectives and the empowerment of managers are all what it takes to energize an organization and orient them towards incremental productivity, cost reduction and customer satisfaction. The process of performance management develops participation, awareness, a decentralized decision making process and responsibility for achieving the goals which have been formulated by the company. As a consequence there must be a goal achievement analysis or review in which the organization draws conclusions about what it is doing well, what it is not doing so well and what improvements that need to be instituted to achieve the envisaged targets. Thus one of the main purposes of the performance management concept is to develop a learning organization culture where such systems may be seen as enablers of a cycle of learning (Amaratunga and Baldry, 2002).

Monitoring is consistently measuring performance and providing feedback to employees on their progress towards achieving the goals through performance appraisal processes. Regular performance monitoring requires conducting progress reviews with employees where their performance is compared against elements and standards. On going monitoring provides the opportunity to check how well employees are meeting predetermined standards and also to adjust unattainable ones. Through continuous monitoring unacceptable performance can be identified and addressed immediately rather than wait until appraisal season.

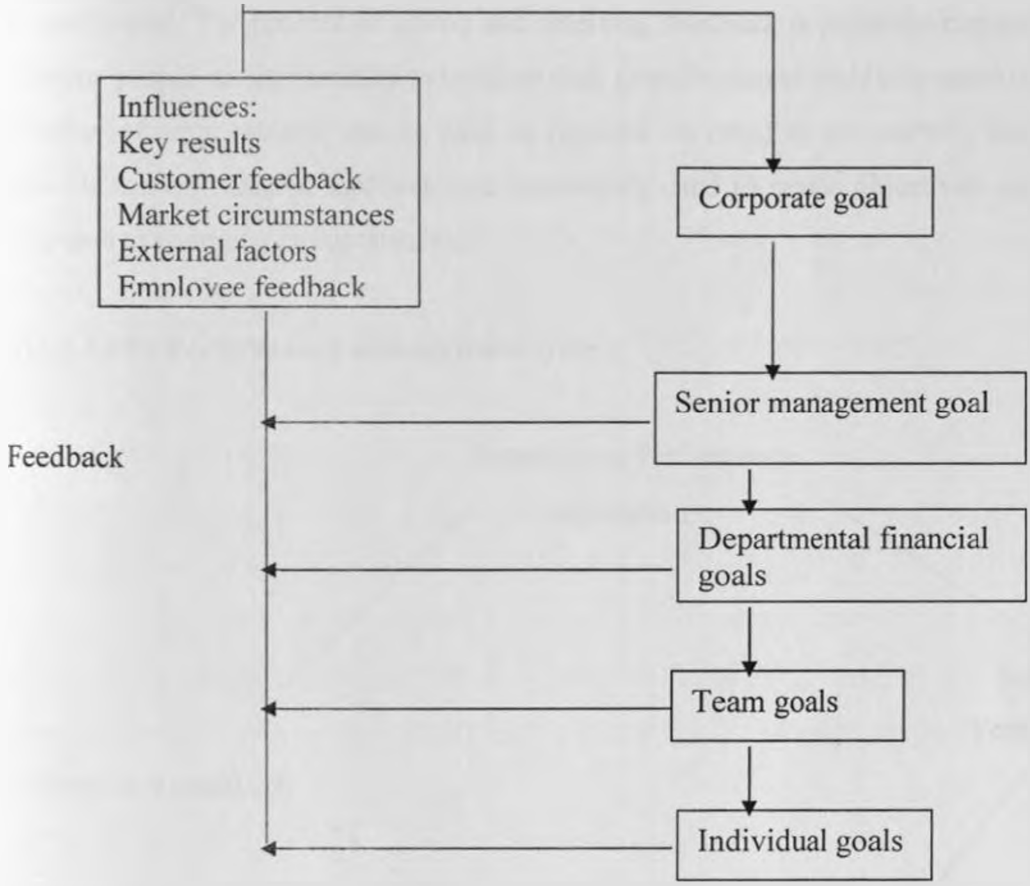
In an effective organization employees' developmental needs are evaluated and addressed. Developing employees is increasing the capacity of the employees to perform through multiple intervention process that includes training, coaching, mentoring, counseling, guiding, giving assignments that introduce new skills or higher levels of responsibility, and improving work processes and other relevant methods. Providing employees with training and developmental opportunities encourages good performance, strengthens job related skills and competencies and helps employees keep up with change in the workplace. Evaluation is the comparison of performance over time and across a set of employees. Within the context of performance appraisal requirement, evaluation means rating employees' performance against standards and assigning a summary rating of records. Performance will be rated based on the work achieved during the plan period. The rating outcome will be the basis of granting pay increases within grade, bonus awards, promotions retention in service credit in case of staff reduction program and instituting sanctions on grounds of productivity. In order to make a performance management system successful, i.e. it is regularly used by managers and results in improved organisational performance, both the structure of the performance management system and the performance-driven behaviour of an organisation need to be of a high quality (Marr. 2004).

### 2.3 Performance Management Process

Performance management is a process designed to link the organization's objectives with those of the individuals in a way that ensures both the individual and the corporate objectives are achieved by improving the performance of the people who work in them and individual contributors (Armstrong & Baron 2004). According to Osborne and Gaebler (1992) clarity of mission may be the single most important asset of an enterprise. The role of the mission is to focus attention on the main purpose of the organization and align organizational goals, priorities and practices with it.

Like many other trends in public sector management, the emphasis on the need for a clear mission statement is as a result of the popularity and success of this concept in the corporate world. Druker (1973) stated that a business is not defined by its name, statutes or articles of incorporation: it's defined by the business mission. This is the starting point of the performance management process and aims at ensuring that each of the activities in the employees targets are aligned to the corporate goals and contribute to its achievement. Performance management is strategic in approach and links the organizations activities and parts to the overall objectives and goals of the company(Fig.2.3.1a). Performance management aims to provide a shared understanding of what is to be achieved by both individuals and teams given the requisite support and the resources, developing their capacities and directing their energies to achieve the organizational goals.

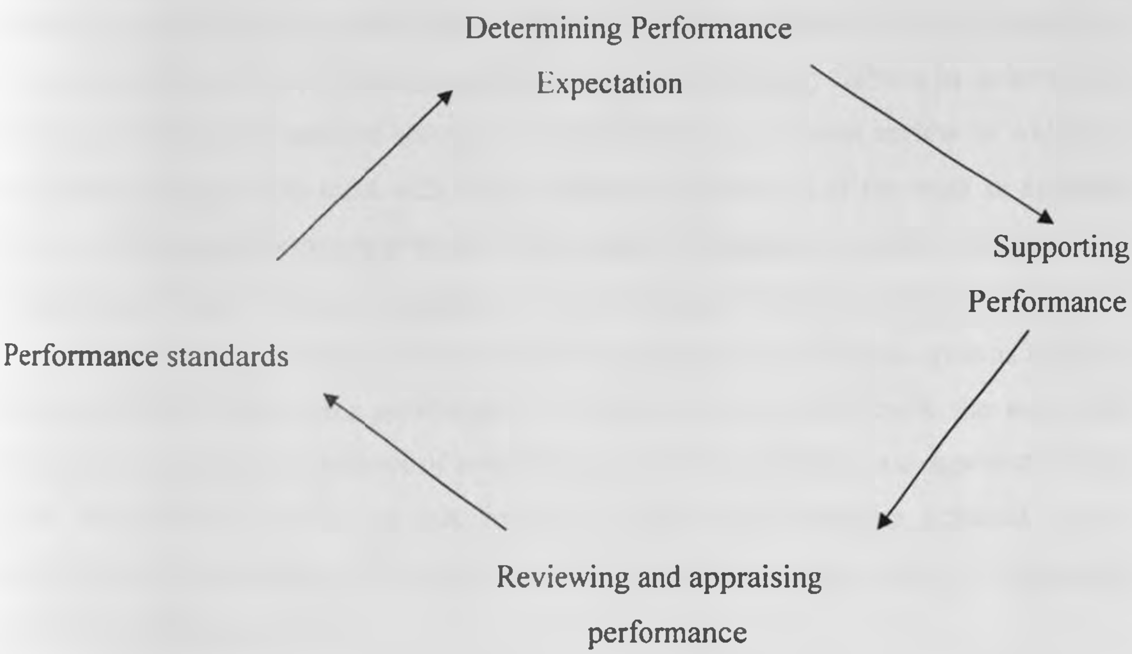
**Fig. 2.3.1(a) Integration of performance goals**




**Source: Armstrong and Baron (2004), Performance Management; The new Realities; page 288.**

The performance management process is a cycle of activities involving determining performance expectation between the individual and the supervisor. This should be aligned to the broader organizational goals. From the broader organizational goals flows the departmental plan that further translates into team and individual targets. Giving and receiving performance feedback both informally on the job and formally as part of a performance review process is critical to ensuring that the goals of the organization, the department and the individual are recognized. It is a continuous process of managing and developing performance standards that reflect normal good practices of direction setting, monitoring and measuring performance, providing feedback and taking action accordingly. Through receiving feedback the competences in terms of knowing the needs of the employees, what needs to be done, how it's to be done and why it should be done is established. The process of giving and receiving feedback is powerful communication offering people the opportunity to validate their contribution to their role and to the team. Interim informal reviews can be held as required on monthly or quarterly basis. They provide more structured feedback and importantly used to revise objectives and plan in response to changing circumstances.

**Fig.2.3.1(b) Performance management cycle**




**Source: Torrington and Hall (1995), Performance management cycle; page 96.**

Trivedi (2007) asserts that internationally, many of the problems of the public enterprise are traceable to inadequacies in performance evaluation. He further argues that state enterprise goals are difficult to specify due to the problem of multiple objectives and plural principles. If goals cannot be specified, then good performance cannot be distinguished from bad. managers cannot be rewarded on the basis of performance and inefficiency can occur. Formal performance review generally takes place annually and should ideally be linked to business cycle. Staff can then understand what the business is trying to achieve in the next year and make a clear connection between business goals and their performance budgets. They can also make a connection between new learning, skills required and their own training and development. Formal review meeting between supervisors and individual employee or team leaders and their teams will be held quarterly and annually to provide an occasion for structured feedback and reflection on the events of last review. It will recognize successes and identify failures in order to plan forward for the next round of action. There will also be an interim review in which the supervisor is required to meet with each employee at the middle of the work or appraisal cycle to discuss performance progress. This meeting is designed to allow employee and supervisors time to discuss progress towards meeting performance expectations and to make adjustments if required. The final component of the annual work cycle is a formal appraisal of the employee's performance. At the end of the work cycle the supervisor evaluates the actual performance of employee based on the performance expectations that were agreed upon. Based on this review and any documentation gathered by the supervisor on the employee, the supervisor will rate each expectation using a rating scale established by the company.

Historically performance measurement systems were financially based, which a limiting effect on the criteria had used to measure and assess performance. To overcome this limitation, performance measures based on a range of non-financial measures have been suggested. According to Kaplan and Norton (1992) the Balanced Scorecard concept is based on the notion that managers need a balanced set of measures covering financial, customer innovations, internal and learning perspectives. It puts strategy and vision, not controls at the center stage and assumes that individual employees will adopt whatever behaviors and actions required in achieving those goals.

According to Trivedi (2007) one of the main reasons for poor performance in the public enterprises is as a result of inefficiency due to lack of incentives for managers. These schemes do not ensure that managers are well remunerated for their performance and responsibilities hence an incentive gap emerges. Performance management systems which have addresses these needs have been more successful than those who have avoided facing the problem. A performance contract which defines the targets and the policy framework is a good basis for introducing performance related incentives. In an effective organization, rewards are used well. Rewarding means recognizing employees, individually and as members of groups, for their performance and acknowledging their contributions to the organization's mission. A basic principle of effective management is that all behavior is controlled by its consequences. These consequences can and should be both formal and informal and both positive and negative. Good performance is recognized without waiting for nominations for formal awards to be solicited. Recognition is an ongoing, natural part of day-to-day experience. A lot of the actions that reward good performance are simple actions or words that require neither authority nor financial commitment. Nonetheless, awards regulations provide a broad range of forms that more formal rewards can take, such as cash, time off, and many non-monetary items. The regulations also cover a variety of contributions that can be rewarded, from suggestions to group accomplishments.

According to Scott (1989) reward has major impact on employee performance. Employees are increasingly looking forward to new and more appropriate ways of rewarding them and particularly with the advent of performance related pay, in both the private and public sectors. In recognition of this fact , the Government of Kenya introduced Guidelines on Terms and Conditions of Service for State Corporation's Chief Executives, Chairmen .Board members ,Management and unionisable staff of state enterprises (Office of the President, 2004).In this guideline the Government was emphatic on the performance based pay and said it will create an enabling environment where pay decisions will be taken by appointing authority rather than fit them in a structured civil service salary.

The benefits of performance management are manifold in an organization (Armstrong and Baron. 2004). The positive aspect of raising awareness in the organization contributes by creating a shared vision throughout and helps establish and support appropriate leadership and management styles. It also reduces confusion and ambiguity through defining clear expectation and requirements as well as providing a framework for individual and team development. Performance management provides system and conducive climate that support rewards and communication. The above translates to higher profits, improved cash flows and greater market for the company with the resultant benefit to the employees being a better pay. Additionally performance management can motivate employees by clarifying goals and expectations, providing reinforcement through feedback, opportunities for people to use and develop their skills, facilitating job enrichment, job enlargement and employee empowerment, and creating a feeling of recognition through reward. Performance management processes promotes organizational learning through benchmarking with the best-practice organizations, past experiences, the systematic search for new knowledge and continuous improvement. For the organization such processes align corporate, individual and team objectives, improve performance, motivate employees, increases commitment to the organizational goals and underpin core values while generally providing training and development opportunities. To the managers this process assists them to clarify expectations, support leadership, motivation and team building, an avenue for assisting under-performances, an opportunity to develop, coach and offer non-financial rewards such as recognition. Performance management offers the individual greater clarity of roles, supports him to perform well, and provides an objective and fair basis for assessment and clear guidance and help forthcoming from supervisor for developing his abilities.

The performance improvement plan is designed to facilitate constructive discussion between a staff member and his or her supervisor and to clarify the work performance to be improved. It is implemented, at the discretion of the supervisor, when it becomes necessary to help a staff member improve his or her performance. The supervisor, with input from the affected employee, develops an improvement plan; the purpose of which is to help the employee to attain the desired level of performance. Assuming an employee is already participating in the company-wide personal development planning process, the format and the expectation of the personal improvement plan should enable the supervisor and staff member to communicate with a higher degree of clarity about specific expectations. In performance improvement planning it is recommended that the supervisor and the human resources department review the plan. This will ensure consistent and fair treatment of employees across the company. The supervisor will monitor and provide feedback to the employee regarding his or her performance on the performance improvement plan and may take additional disciplinary action, if warranted, through the organization's progressive discipline, if necessary.

### 2.4 Factors Affecting Performance Management Process

Armstrong and Baron (2004) assert that performance management practice came into being as a reaction to the negative aspects of merit rating and management by objectives. They assert that this was as a result of the changing market economy and entrepreneurial culture that necessitated focused attention on gaining competitive advantage and getting added value from the better use of resources. They further argue that the use of performance management in the best practice companies is not because it is better technique than performance appraisal but because it can form one of a number of integrated approaches to the management of performance. Jensen (1993) opines that political and regulatory forces have contributed significantly to the improved public enterprise management giving birth to a plethora of mechanisms for corporate controls including performance contracting, appointment of board of directors, ownership by managers, executive compensation and other external control systems.

Political and regulatory environments have had significant effect on corporate governance systems throughout the world. Jensen (1993) opines that political and regulatory forces have contributed significantly to strengthening internal control systems in modern times. These controls include performance contracting, appointment of board of directors, ownership by managers through executive share options, and executive compensation. Therefore performance management is part of the wider public reform process that is aimed at improving efficiency and effectiveness in the management of public enterprises. In Kenya like the other developing countries, the main driving factor for the introduction of the concept of performance management was the public sector's poor performance. The inhibitors of this were identified as excessive controls, multiplicity of principals, frequency of political interference, poor management bloated staff establish among many other causes. The government of Kenya through its economic recovery strategy for wealth creation (2003-2007) introduced the practice and instructed all state corporation boards and management to sign performance contract. Additionally the strong persuasive influence of the international financial agencies and several bilateral agencies, who advocate for the performance management system as an important element of the reform program in public sector, was a major influence in the drive to install performance management systems. International Financial Agencies have emphasized this because of routine interference of government in the day to day operation of the enterprise as such interference has not encouraged productivity.

The widely accepted rationale for introducing performance management is that public enterprises have got multiple objective and multiple principals. These fussy objectives lead to, or are an alibi for poor financial performance in many cases. One view is that because public enterprises are required to carry out several functions they are unable to do any one of them very well. The other is while these enterprises might have done well in achieving many of the objectives, its performance may be judged with reference to one objective in which it has not done well. Its with the believe that performance management practice will remedy the situation of multiple objectives by listing the preferred objectives which the principal would like the entity to achieve. It would therefore remedy the multiplicity of principals by having only one agency to sign on behalf of all the principals.

## 2.5 Performance Contract

Performance Contracts originated in France in the late 1960s to improve performance of state-owned enterprises, including the national electric power utility and the national railroad company. It was named contract plan, in which an agreement regarding the performance was established between the government and the state owned enterprises based on a five-year work plan. Performance contract, as the name suggests is a prelude to the evaluation of performance of an entity (Trivedi, 2007). However, the concept of a performance contract and its rationale varies from country to country. Performance contract is a contract between the owner of an enterprise on one hand and the management of the enterprise on the other, setting out targets/results to be achieved in a given time frame. It also enumerates the mutual obligation of the two parties in achieving the targets set in the contract. The widely accepted rationale for performance contract is that public enterprise has got multiple objectives from multiple principles. These fussy objectives only lead to or are an alibi for poor financial performance in many cases.

One view is that because public enterprises are required to carry out several functions they are unable to do any one of them very well. The other reason causing poor performance is that while a public enterprise might have done well by achieving many of the objectives, it's performance might be judged with reference to one objective in which it has not done well. A performance contract would remedy the situation of multiple objectives by listing the preferred objective which the principal would like the public enterprise to achieve. It would remedy multiplicity of principals by forcing one agency to sign on behalf of all of them. Other reasons of advocating for performance contract include the strong persuasive influence of the international financial agencies and several bilateral agencies who advocate the performance contract system as an important element of the reforms in the public sector. Secondly, public enterprises may have to pursue certain social goals and such pursuits may affect the financial results of the operation of the public enterprise therefore a prior understanding of the extent to which financial results can be traded off against social objectives to be achieved by a public enterprise through a performance contract would help to clarify public enterprise objective. Several public enterprises, on the basis of current operations, could be recording losses but such balance sheet results alone would not indicate the effort put in and the success achieved by the management of the public enterprise in improving their operations (Commonwealth Secretariat, 2000).

Performance contract are referred to by various names in different countries (Commonwealth Secretariat, 2002). The most popular terms include performance contract, contract plan, and contract de program, letter of agreement, performance agreement and memorandum of understanding. There is a general consensus that there are only two main types of contracts and all other arrangements fall under one or the other. These two systems are commonly known as the French based system and the signaling system. The difference between the two is typically French contract plans do not attach weights to target and as such performance evaluation is affected by a high degree of subjectivity. The signaling system is based on the principle that, given the resources, how best the management can make use of it. It motivates managers to maximize returns on the given capital. To attain this objective, attempt is made to evolve primary criteria of evaluation which reflect the improvement in real productivity which in turn leads to increases in socially relevant profit.

A performance contract is signed at the beginning of the year in which management is committed to improvement in real profitability. At the end of the year, and based on a comprehensive evaluation system, the management is awarded a performance bonus which is determined by the improvement in real performance, thus the signaling system is based on the principle that public enterprise management should be appropriately guided to aim at improving real productivity and its effort should be acknowledged and rewarded by an incentive system.

# CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1 Research Design

The study adopted a descriptive case study on Postal Corporation of Kenya. Case study research gives an understanding of a complex issue or object and can extend experience or add strength to what is already known through previous research. Case studies emphasize detailed contextual analysis of a limited number of events or conditions and their relationships. Thus it was deemed to be appropriate to achieve the objectives of this study. Case study allows the detailed investigation of the contents of study, in this case, performance management practice at Postal Corporation of Kenya.

## 3.2 Data Collection

Primary data was used for the study. Personal interviews were conducted using an interview guide (see Appendix I) to collect data on performance management at Postal Corporation of Kenya. The respondents were managers of Postal Corporation of Kenya namely; Heads of Human Resources Management, Information, Communication and Technology, Mails, Financial Services, Courier, Marketing, Logistics and the Company Secretary.

## 3.3 Data Analysis

The data was analyzed using content analysis. The analysis enabled to determine the management processes used at Postal Corporation of Kenya.

# CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

## 4.1 Introduction

This chapter presents the analysis of the data collected through the interview guide. This chapter is structured as follows. The chapter gives a discussion of the study's findings.

## 4.2 Employee Performance Management Process

Performance management at Postal Corporation of Kenya has its basis on the corporate goals and objectives. Corporate strategic goals provide the starting point for business and departmental goals. The Corporation has a five year strategic plan from which the departmental and individual's performance targets emanate. This conforms to the current performance management practice that requires the performance objectives and targets should be drawn from the larger corporate objectives and are cascaded down to the departmental and finally to the individual goals. The respondents however complained of lack of clear objectives and challenges in setting the objectives by staff. There was no formal training on the performance management to ensure understanding and adoption of the practice. This seems to be the major weakness in the installation of the practice that requires thorough understanding and knowledge of the concept before implementation. The performance management process at PCK has four phases. First, expectations for both behaviours and results are set. People can not be held accountable if nothing is expected of them. Second, individual performance is continuously reviewed. Third, performance is appraised. Fourth, the appraised performance is sanctioned. Each phase depends on the earlier ones, and the last phase finalizes accountability in the Corporation. This finding is consistent with Brumback (2008), who proposed that the process has four phases if done properly.

The performance management processes at Postal Corporation of Kenya has several elements. The first element is performance planning. Expectations for employee performance are established in employee performance plan. A dialogue between management and employees to establish clear, specific performance expectations at the beginning of the performance cycle is held. This charts out the course of the performance management process at Postal Corporation of Kenya. In performance planning the Corporation sets its strategic plan and from this stage flows to the departmental and individual objectives. These targets are discussed between the supervisor and the employee and agreed upon. Secondly, there is coaching process where if an employee is not conversant with the job and the objectives they are assisted and facilitated to perform their tasks. These are two-way discussions which focus on recognizing employee excellence, areas for improvement and learning, as well as identifying barriers to performance. Personal development plans are however absent and this negates the concept of individual development that a standard employee performance practice extols. Staff needs to be trained to understand the purpose and impact of performance management. They should also be involved in creating and managing performance management (de Waal, 2002), then the performance management can become something which creates improvement rather than just a judgement or blaming tool.

The Corporation has the right employees who would help achieve robust organisation performance with increased profitability and a better corporate image. The respondents felt that the organisation had the potential to be a big force to reckon with even at global marketplace only if the management and the employees would change their attitude towards service delivery and customer service. The Corporation has acquired a fresh new approach to doing business which has inspired our new corporate identity, through a number of initiatives that include talent search and attraction, training among others the Corporation is changing for the better. This is very encouraging for the organisation as it will enable the organisation to compete with the global companies like DHL and also come up with better products to enhance the welfare of Kenyans. Productive and robust employees are one of the critical success factors of performance contracting at the Corporation as asserted by Brumback, (2008).

The organisation culture as inherited from the parent organisation is not helping reforms at Postal Corporation of Kenya and in general the other offspring of the defunct Kenya Postal and Telecommunication Corporation (KP&TC). The respondents were of the view that the organisation culture inherited is a wrong one that seemed to be a good setting for encouraging laziness. laxity and complacency. They said that the legacy of KP&TC was monopolistic which meant there was no competition thus there was no need to employ aggressive business strategies. The corporate culture is one of concerns to employees and their working conditions and values that may mitigate the importance of other economic goals in the organization's objective function. The organization's culture inherited from KP&TC is also bureaucratic which inhibits interaction between the management and employees. The organisation culture at Postal Corporation of Kenya influences the pace of change and quality of service. The respondents asserted that the organisation culture also influences innovation and professionalism at Postal Corporation Kenya. The Corporation has not done a lot in changing the employees' attitude towards performance and introduced the performance contracts without buy-ins from the staff.

The Corporation's performance since the adoption of employee performance management system. the respondents indicated that it was too early to judge the impact of the new employee performance management system on the performance of the Corporation.

The Corporation has formal performance indicators. milestones and targets for its employees. These are set annually in the Government Performance Contracts and the company strategic plan. Achieving these targets will lead to favourable reporting by the Government in the annual performance contracting ceremony. Though the Corporation was listed as the fourth best in the public service in the year 2006, the performance management system being in its initial stages there is no tangible evidence to show any improvement or decline. The performance of the Corporation has been static for the past five years. There is however optimism that this year's result would improve as a result of the performance management system. This optimism is due in part to the fact that the managers have been given targets and which has to be achieved. Purcell et al. (2003) capture this when they say "better performance comes about when people are stimulated to do their jobs better: becoming better at looking after customers, better at solving problems and better at working with colleagues.

The performance management at the Postal Corporation of Kenya is characterized by multiple sources of feedback. There is a process which provides employees with performance information to supplement management feedback which includes self, peers, constituents or direct reports. The numerous contacts and discussions, the employee is guided by his supervisor continuously to ensure that the individual employee is on track on the targets given. Necessary assistance will be accorded by the supervisor whenever the employee requires guidance. This is the common practice in employee performance as it keeps the employee on the radar of performance. Performance management is a shared commitment to improve performance at Postal Corporation Kenya. It balances autonomy and accountability at the individual and organizational levels. They however, asserted that effective performance and continuous learning is absent in the Corporation as there are no policies to support learning in the organization. This contradicts the very tenets of employee performance system that encourages continuous learning and feedback from both the staff and customers. The study findings are in line with Trivedi (2007) who asserted that one of the main reasons for poor performance in the public enterprises is as a result of inefficiency due to lack of incentives for managers. By defining and understanding certain elements for each of the facets and relating them to performance management it may be possible for the organisation to support the building blocks. Performance management monitoring is conducted through quarterly performance reports and reviews. Regulatory requirements for monitoring performance include conducting progress reviews with employees where their performance is compared against their elements and standards. Ongoing monitoring provides the opportunity to check how well employees are meeting predetermined standards and to make changes to unrealistic or problematic standards. There is a formal reward and sanction system to support performance management process whereby good performance is rewarded whereas poor performance is acted upon appropriately.

The employees are informed of their targets and objectives concerning the performance management process in the Corporation. The management encourages the employees to achieve these objectives through training, incentives and coaching. The respondents said that the management used circulars. newsletters and memos though they felt that communication still remains a big hurdle in the Corporation.

The results of performance management are used in rewarding, sanctioning and training. The respondents confirmed that a performance reward and sanctions policy exists in the Corporation though not fully operationalized given that the practice is only a year old. The results will be used as a basis for promotion, redeployment, demotion and transfers of the Corporation's employees. The results also enable identify employees requiring guidance and counseling in the Corporation.

The process is not costly compared to other performance improvement strategies. The cost of performance contracting was mostly due to training and monitoring expenses. The respondents claim that a lot of time is spent in entrenching the practice through training and reviews. They believe that the initial investment is worth the effort and resources as its anticipated that when systems are finally in place there will be less time wasted on these issues.

A poor performance culture that prevails in the Corporation, the emerging competition from the private sector and multinationals, the rising production costs, mismanagement of the Corporation's resources, and the Government's direction in implementing the performance contract are the factors which influence performance management at the Corporation. The legacy left by KP& TC was a wrong one for the process to 'hatch' successfully. The present work system where employees are 'permanent and pensionable' is a complacent one which is not conducive for the implementation of the performance management strategies. Postal Corporation of Kenya just like other public institutions was not performing well. These institutions are yet to shed their former poor corporate images. This is evidenced by the way customers pass judgment. through unflattering comments on the service delivery and customer service of the Corporation at social functions. The Corporation lags behind in innovativeness compared to its international competitors. The findings are in line with Scott et al. (2004) who argued that the management of organizational culture increasingly is viewed as a necessary part of organizations' system reforms.

The management has a long way to go if the process was to bear any fruits in the organization. The bureaucratic tendencies of management of public institutions are not helping the successful implementation of the process. To achieve the desired outcomes and the objectives of the process and the corporate goals and objectives the management need to create an enabling environment where employees would participate in the decision on matters concerning the employees like setting of the performance targets as the employees are the ones well versed with what the job entails. The findings of the study concur with Marr, (2004) who argued that for performance management system to be successful. both the structure of the performance management system and the performance-driven behavior of an organization need to be of a high quality.

## 4.3 Factors influencing employee performance management process in the Corporation

One of the reasons of adopting the performance management system at Postal Corporation of Kenya was to improve and enhance accountability and transparency. Government direction on the adoption of performance management system was also responsible for the quick introduction and installation of the employee performance management practice in the Corporation. The Corporation was forced to adopt the performance management system as directed by the Government as outlined in various public sector reform policies. The reform represented significant policy shifts in the areas of staffing. civil service organization. pay and benefits. personnel management and training and financial and performance management. The performance management policy called for a shift from executive type of appraisal based on rules to results based performance appraisal. Thirdly the respondents said that another factor that prompted the need for performance management at Postal Corporation Kenya was the need ensure sustainable improvement in the Corporations 7S (systems, structure, staff, style, standards, shared values and strategy). In the current liberalized markets the Corporation cannot survive unless it adopt the best practice in an endeavor to propel itself to prosperity and economic survival. The Corporation in benchmarking with the best performing companies in the country it found that most of them were on performance management system. This has also encouraged the Corporation to accept the practice. Employee performance management system is a necessary tool that the Corporation had to adopt to improve productivity and consequently performance of the Corporation. The need to measure performance and productivity is seen by the Corporation as means to enhance productivity and curtail wastage and idle capacity. The Corporation was forced by the need to remain competitive in the highly competitive business environment public organisations in Kenya are faced with currently in the marketplace. The study findings are consistent with Armstrong and Baron (2004) who asserted that performance management practice came into being as a reaction to the negative aspects of merit rating and management by objectives.

Performance management system at Postal Corporation of Kenya was necessitated by the need to measure the productivity of the employees. Its often said that what can be measured can be achieved. This is in line with the current performance management practice which is a universal mantra that was embraced by many organizations with a great measure of success. This is particularly seen by many managers as having come at the right time when the prevailing belief is that there exist a lot idle capacity and absence of accountability for many staff members who report to work but have no contribution to the Corporation's objectives. This corroborates what Radnor and McGuire, (2004) who argued that currently in the public sector, performance is about measurement and evaluation not management, the system is diagnostic not interactive or about allowing improvement as the targets are not considered nor their baseline appropriately evaluated and overall there is a lack of ownership.

Respondents asserted that performance management strategies at Postal Corporation of Kenya have been influenced by the corporate strategic plan. The Postal Corporation of Kenya's strategic plan offers the guidelines on the organization's performance management system. The General Manager Mail asserted that "Strategic objectives are important because they describe how the organization will accomplish its mission. Without them, there is nothing to guide decision-making". Postal Corporation of Kenya also takes into consideration Government targets set for the public organisations as concerns performance management. The government of Kenya through its economic recovery strategy for wealth creation (2003-2007) sets specific targets to be achieved by each public organisation. The respondents stated that there was a difficulty in aligning the personal and departmental goal to the corporate goals during the formulation of performance management strategies. The personal alignment being the most challenging task in the formulation of performance management systems as changing personal attitudes is a hard thing to accomplish.

It was also established that the strong persuasive influence of the international financial agencies such as World Bank, International Monetary Fund, International Finance Corporation and several other bilateral agencies, who advocate for the performance management system as an important element of the reform program in public sector, that was a major influence in the drive to install performance management systems. International financial agencies have emphasized this because of routine interference of government in the day to day operation of the enterprise as such interference has not encouraged productivity.

# CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Introduction

This chapter presents the summary, conclusions and recommendations of the findings of this study. This chapter is organized as follows. First, a summary of the findings in chapter four is provided. Then the conclusions of the study based on the objectives of the study follow. The study then recommends to the stakeholders regarding the findings. Areas for further research are then proposed for academics and scholars wishing to do research on public institutions on the subject of performance management practice.

## 5.2 Summary

The study established that the Postal Corporation of Kenya has adopted performance management process and most employees are aware of the practice. The Corporation has adopted a signaling system of performance management. The process was adopted as a means of complying with the directive as contained in the Legal Notice No.93 of the State Corporations Performance Contracting Regulations. It was also adopted as a means of gaining competitiveness in the highly competitive business environment within which the organisation operates.

There were various factors responsible for the introduction of employee performance management process in Postal Corporation of Kenya. Apart from the major factor of Government directive. the other factors include competition, costs, lack of innovations, poor customer orientation and slow response to customer needs. Strong persuasive influence of the International financial agencies and several bilateral agencies, who advocate for the performance management system as an important element of the reform program in public sector. were a major influence in the drive to install performance management systems. International financial agencies have emphasized this because of routine interference of government in the day to day operation of the enterprise as such interference has not encouraged productivity.

Some of the major challenges were noted to be the organisation culture inherited from the parent Kenya Post and Telecommunication Corporation (KP& TC), resistance to change, lack of coherent change management strategies and complexity of the performance management tools. The respondents were of the view that the legacy left by KP& TC was a wrong one for performance management process to 'hatch' and grow successfully. Organisation culture and resistance to change are the main obstacles in the implementation of the performance management strategies.

The respondents were of the opinion that the management should change its approach towards employee performance management if the process was to be beneficial to the organisation and the employees. The respondents said that the bureaucratic tendencies of management of public institutions are not helping the successful implementation of the process. They raised issues with the way the practice was introduced and felt that the change was not properly managed as the system was hurriedly implemented without first addressing the pertinent issues of culture change, training and acceptance by the staff.

## 5.3 Conclusion

The study has discussed the performance management process and how it has been implemented in the public sector with reference to Postal Corporation of Kenya. It has been demonstrated that there are difficulties associated with implementing private sector managerial practices into the public sector and that the reasoning behind the adoption of such practices is flawed. Rather than seeking to improve efficiency and effectiveness, imposing of private sector practices has occurred in the public sector aimed at making public sector entities more like their private sector counterparts. Such action is argued to have occurred through a desire to display "ideological commitment" rather than an aspiration to adopt "best practice". It has been argued that attempts to implement performance management have often failed due to insufficient consideration of the contextual and cultural framework of the public sector and that these contextual factors militate against transferring private sector practices into the public sector. Given that performance management is a dialogue between supervisors and employees to consult upon performance expectations, clarify what the employee will be evaluated on, and set the stage for ongoing feedback and coaching throughout the year the high handed nature of management is worrisome. This has altered the practice and has created a pseudo performance practice that fails to deliver maximum results that proponents of employee performance management concept would have expected. However, many managers are of the opinion that introducing the system is a step in the right direction and that like other systems this one is likely to evolve to a better system and what is now encountered is but 'teething' problems that will eventually disappear. This optimism are realistic and if the Government maintains the current momentum, its likely to achieve the envisaged results. The managers recounted the experience of other public enterprises both in the developed and developing economies where the practice was introduced and was found to have succeeded.

As stated by Hernandez (2002), "if performance management is simply viewed as a data-collection and reporting exercise, it will serve little purpose to a community. It is only through the analysis of data that performance measurement can become a tool for continuous service improvement". However, this study argues that to achieve this, there needs to be an understanding of the relationship between strategy, people, organisational form/design and performance systems in order for performance management to be achieved particularly within the public sector.

## 5.4 Recommendations

The study based on the findings and conclusion proposes that the management of the Corporation needs to critically rethink their stance on performance management as it impacts negatively the employee morale and their performance which in turn affects the service delivery and customer service and hence the Corporation's profitability. This should be rectified and the management at the Corporation should shed off the bureaucratic tendencies and adopt the 21st Century business practices to enable the Corporation compete in the global marketplace.

There is also need to provide employees with training and developmental opportunities to encourage good performance, strengthen job-related skills and competencies, and help employees keep up with challenges in the workplace, such as the introduction of new technology.

There is need to tie the performance management process with rewards system. The study recommends that the management should be honest and as the Company Secretary said the management needs to "walk the talk" on issues of performance management. If the rewards are made part and parcel of the employee performance system, then there is a big chance of success and sustenance of the system.

The management of the Corporation should also involve the union employees to obtain maximum support and smooth installation of the system. The union is stakeholders and ignoring their role is likely to cause despondence.

### 5.5 Suggestion for further research

This study is important to those wishing to study various aspects of performance management in public sector and in particular, performance management effect on organisation in the public sector. As this study found out that the practice has not fully been embraced in Postal Corporation of Kenya and that many gaps exist. More studies should be done to establish how public institutions implement the employee performance management practice. The studies could also establish the role of rewards in employee performance management in public organizations given that many such organization are not keen on linking reward to performance. These would have an impact on employee morale and subsequent productivity of employees and the organisation in general can be explored.

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## Appendix I: Interview Guide

1. How many employees does the Corporation have?
2. What is the government shareholding proportion in the Corporation?
3. Does Postal Corporation of Kenya operate formal performance management and how regularly is it done?
4. What are the elements of performance management for Postal Corporation of Kenya?
5. What system of performance management does the corporation have or want to adopt?
6. What prompts Postal Corporation of Kenya to adopt performance management?
7. How often is the Corporation`s performance management process appraised?
8. Are the organization's employees unionized?
9. If, the employees are unionized, do the current performance management arrangements agree with the Unions?
10. Who are involved in the design and redesigning of the system?
11. What factors do you take into consideration when selecting performance management strategies?
12. Are the performance targets negotiated with the employee by the supervisor?
13. What influence does the organization culture have on performance management strategies?
14. In terms of cost, how do performance management strategies, compared with other performance improvement strategies
15. How reliable are the Corporation's performance management strategies in improving employees` performance?
16. To what extent is performance management related to the Corporation's performance?
17. What are some of the difficulties encountered when formulating performance management strategies?
18. What difficulties does the organization face when implementing performance management strategies?
19. How does the organization deal with problems cited in formulation and implementation of performance management strategies?

20. In what areas are the results of performance management utilized? e.g. rewards, demotion, promotion, separation, or training.

21. Does the company have formal performance indicators, milestones and targets for its employees? If yes, how are employees enlightened on the same?

22. Are employees of the corporation's told of their objectives?

23. How does the organization encourage them to meet such objectives?

24. How is the corporation's performance monitoring conducted?

25. Does the corporation have the rig

26. 0ht employees to produce robust performance information?

27. How do you rate Postal Corporation of Kenya's performance against that of competitors? (in terms of service quality, innovation, profitability, quality of work force and efficiency, effectiveness).

28. What is the attitude of the management towards performance management? Are they supportive?

29. Is there a formal reward system to support performance?