

**TOP LEVEL MANAGEMENT PERCEPTION OF
PERFORMANCE CONTRACTING AT THE MINISTRY OF
TRANSPORT IN KENYA**

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DECLARATION


This research project is my original work and has not been submitted for examination to any other university.

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

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DEDICATION

I dedicate this work to my family, friends and all those who supported me up to the completion of this project.

ABSTRACT

The goal of this study was to look at the top level management's perception on performance contracting at the Ministry of Transport in Kenya. The researcher adopted a case study research design which involved the use of an interview guide. The target population constituted the heads of departments who form the top level management in the Ministry of Transport. Content analysis was used to analyse the data. The research findings show that a large portion of the respondents feel that the introduction of performance contracts has to a great extent led to improved service delivery. It was however noted that there is lack of commitment and support from the top leadership. Training of managers on performance contracting was perceived to be vital and helped them embrace the idea of measuring performance. Other research findings indicated that appraisal results/ ratings determine to a great extent whether an employee will be promoted or not. From the study findings the researcher concludes that the introduction of performance contracting in the public sector was an important milestone in performance management. For the Ministry of Transport to succeed in the implementation of the concept of performance contracting all staff in the Ministry have to be trained and sensitized on the importance of performance contracting. The Ministry's top leadership should embrace the idea of performance contracting and demonstrate commitment and support in terms of provision of resources. The researcher recommends that a reward system should be instituted and be effectively implemented. The Ministry should also consider introducing an internal reward system for best performers in each department. The Ministry should also consider introducing other ways of measuring performance for example the Balance Score Card (BSC).

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ACRONYMS AND ABBREVIATIONS

BSC	Balance Score Card
CAPAM	Commonwealth Association for Public Administration and Management
GOK	Government of Kenya
HRD	Human Resource Development
HRM	Human Resource Management
ICT	Information Communication Technology
KRA	Kenya Revenue Authority
MHRMAC	Ministerial Human Resource Management Advisory Committee
MOT	Ministry of Transport
OECD	Organization for Economic Cooperation and Development
PSC	Public Service Commission
RBM	Results Based Management
ROM	Results Oriented Management

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Strategic management is the process of examining present and future environment, formulating the organization's objectives, making, implementing, and controlling decisions focused on achieving these objectives in the present and future environments (Smith et al., 1986). Strategies provide a competitive superior linkage to the organization with the environment – all focus on achieving the organizational objectives. This implies that a strategy is a process of management functioning which is essential for an organization to move from where it is today, to where it aims to be in future. Therefore strategy is about working out a point of direction and linking it to the aims and objectives of the organization. According to Porter (1996), strategy is about achieving competitive advantage through being different – delivering a unique value added to the customer, having a clear and enactable view of how to position yourself uniquely in your industry.

Strategic management, as minimum, includes strategic planning and strategic control. Strategic planning describes the periodic activities undertaken by organizations to cope with changes in their external environments (Digman, 1997). It involves formulating and evaluating alternative strategies, selecting a strategy, and developing detailed plans for putting the strategy into practice. To be considered effective, a chosen strategy must be implemented successfully. The ability to translate the strategic plan into actions and generate positive outcomes can itself be a source of competitive advantage. Performance contracting which is viewed as a proactive strategic management tool for achieving

business goals and objectives, typically involves four main stages namely target setting, skills development, performance monitoring and evaluation, and rewarding of outstanding performance. Wang & King (2008) concur that governments all over the world view performance contracting as a useful vehicle for articulating clearer definitions of objectives and supporting new management, monitoring and control methods, while at the same time leaving day-to-day management to the managers themselves.

Pearce II et-al, (2007) argues that whenever there is a separation of the owners (principals) and the managers (agents) of a firm, the potential exists for the wishes of the owners to be ignored. This fact, and the recognition that agents are expensive, established the basis for a set of complex but helpful ideas known as agency theory. Whenever owners delegate decision making authority to others, an agency relationship exists between the two parties. When the interests of managers diverge from those of the owners, then managers' decisions are likely to reflect the managers' preference than the owners' preferences. To minimize agency problems, principals have resorted to defining an agent's responsibility in a contract and including elements like bonus incentives that help align executives' and owners' interests. The contract is between the owner of an enterprise on the one side and management of the enterprise on the other, setting out certain targets or results to be achieved in a given time frame. It also enumerates the mutual obligations of the two parties in achieving the targets set in the contract.

Performance contracting as a strategic management tool is perceived to be important in ensuring delivery of quality service to the public in a transparent manner for the survival

of the organization (Armstrong & Baron, 2004). Gore (1996) recognizes the importance of performance contracting when he admits that in the United States federal government, performance contracts are in one way or the other changing the way many bosses do their jobs. Gore believes that many managers have changed their attitude towards workers which in turn has encouraged innovation and good customer service.

Performance contracts in Kenya originated from the perception that the performance of public sector has been consistently falling below the expectations of the public. In order to move the implementation of results- based management (RBM) forward, the government of Kenya developed and launched the strategy for Performance Improvement in the public service in 2001. The strategy sought to increase productivity and improve service by optimizing human resources employed by the Public Service Commission (Masai & Mulei, 2005).

1.1.1 The Concept of Performance Contracting

The term performance contracting can be traced from France in the late 1960's and other countries including India, Pakistan and Korea (OECD, 1997). Prior to this period the business environment was rather stable and therefore strategic planning was entrusted in the hands of top management of the organization. This practice was counterproductive as managers who were implementers of the strategic plans were not involved at the formulation stage. Aosa (2000) supports this view when he argues in his study that due to increased environmental turbulence in the early 1970's, especially 1973 top executives were forced to recast the way they looked at their business for survival. They redefined

performance management as a proactive management tool for achieving business goals and objectives, through a structured and continual process of motivating, measuring and rewarding individual and team performance. The system addressed some of the complex technical issues of evaluating real performance of public enterprise managers. Since then it has been adopted in various modified forms in a number of countries.

Performance contracting as part of strategic management is, therefore, defined as a binding agreement between two or more parties for performing, or refrains from performing some specified act (s) over a specified period of time. It is a branch of management control systems which provide information that is intended for managers in performing their jobs and to assist organizations in developing and maintaining viable patterns of behaviour (Commonwealth Association for Public Administration and Management (CAPAM), 2005). As part of performance management, performance contracting is a central element of new public management, which is a global movement reflecting liberation management and market-driven management.

1.1.2 The Concept of Perception

According to Nelson and Quick (1997) social perception is the process of interpreting information about another person. What this definition has clearly highlighted is that the opinions you form about another person depends on the amount of information available to you and the extent to which you are able to correctly interpret the information you have acquired. In other words, you may be in possession of the same set of information that other people have on a particular situation, person or group but still arrive at different

conclusions due to individual differences in the capacity to interpret the information that you all have.

Rao and Narayan (1998) obviously share the main characteristics of the above definition. However, they emphasize that perception ranks among the important cognitive factors of human behaviour or psychological mechanism that enable people to understand their environment. In their own words, perception is the process whereby people select, organize, and interpret sensory stimulations into meaningful information about their work environment. They argue that perception is the single most important determinant of human behaviour, stating further that there can be no behaviour without perception. Focusing on managers in work settings, Rao and Narayan draw attention to the fact that since there are no specific strategies for understanding the perception of others, everyone appears to be left with his own inventiveness, innovative ability, sensitiveness and introspective skills to deal with perception.

Rao (2008) notes that perception can be regarded as nothing more or less than a discriminatory response. In even simpler terms reaction is perception, and thus the role of the researcher is simply to determine the conditions under which a discriminatory response is obtained. These conditions then define perception. Management's perception of performance contracting therefore may be influenced by factors such as the context or environment in which they work, their familiarity with the process of performance contracting and their personal characteristics.

1.1.3 Kenya's Public Sector

Prior to a detailed study of the Ministry of Transport's performance contracting process, an understanding of the origin of the idea would help us appreciate the progress that has been achieved so far. Performance contracts in Kenya originated from the perception that the performance of public sector has been consistently falling below the expectations of the public.

Performance contracting is part of the broader public sector reforms aimed at improving efficiency and effectiveness in the management of public service. In order to move the implementation of results- based management (RBM) forward, the government of Kenya developed and launched the strategy for Performance Improvement in the public service in 2001. The strategy sought to increase productivity and improve service by optimizing human resources employed by the Public Service Commission (Masai & Mulei, 2005). It outlined the actions that were necessary to embed long lasting and sustainable change in the way public services are offered. Underpinning this strategy was the Results Oriented Management (ROM) approach, which makes it necessary to adjust operations to respond to predetermined objectives, outputs and results. The adoption of this approach demanded a paradigm shift in government operations. This called for a transformation from a passive, inward looking bureaucracy to one which was proactive, outward looking and results oriented; one that sought customer satisfaction and value for money. Consequently, the government introduced the concept of Performance contracts in the management of State Corporations in 1989 (GOK, 2005). Following the success in

implementing performance contracts in state corporations, the government extended the process to public service beginning with Permanent Secretaries and accounting officers.

1.1.4 The Ministry of Transport

Arthur (1940) asserts that every organization has a unique culture. It has its own ways of approaching problems and conducting activities, its own mix of managerial personalities and styles, its own patterns of “how we do things around here,” its own set of war stories and heroes, its own atmosphere, folklore and personality. The Ministry of Transport (MOT) was created through a Presidential Circular No. 1 of 2008 to provide the necessary policy development and regulatory framework for the transport sector. The Ministry of Transport has evolved over time with changing responsibilities depending on changes in Government functions. It is mandated to formulate transport policies to guide in the development of the entire transport sector and develop regulatory framework for the transport sector to ensure harmony and compliance with international standards. It also monitors and supervises service delivery by State Corporations and Semi-Autonomous Government Agencies under the Ministry (Strategic Plan, 2008-2012).

Performance contracting in the Ministry of Transport is an annual activity which involves negotiating targets based on the targets set out in the strategic plan for the institution. To achieve the plan it is broken down into annual activities which are the ones included in the performance contract. Implementation is based on the concept of cascading for example the Permanent Secretary being the Accounting Officer enters into contract with Office of the Prime Minister and then cascades the contract to the various departments

based on their mandate. Individuals derive individual work plans from the strategic plan. It is this work plan that forms a basis for the Performance Contracts, which is then implemented, evaluated and the information used to inform decisions on performance improvement.

Issues such as organization culture largely dictate how managers and employees perceive performance contracting. Core values like honesty, cooperation and teamwork determines whether the vision and mission of the institution is achieved as per the negotiated targets in the performance contracting. Policies, regulations and procedures that govern the running of every day's activities also determine the behavior of managers in the institution. Liberation management means that public sector managers are relieved from a plethora of cumbersome and unnecessary rules and regulations which usually hinders quick decision making in the organization (Gianakis, 2002).

1.2 Research Problem

Performance contracting is viewed as a proactive strategic management tool for achieving business goals and objectives, through a structured and continual process of motivating, measuring and rewarding individual and team performance. It is perceived to be important in ensuring delivery of quality service to the public in a transparent manner for the survival of the organization (Armstrong & Baron, 2004). Research performed by Thune and House (1970), indicates that formalized strategic management does result in superior performance by organizations. Buckley (1993) concurs that strategic management has become a vital part of most, if not all organizations. It is widely believed that strategic planning is a necessity for organizations to survive. To be

considered effective, a chosen strategy must be implemented successfully. The ability to translate the strategic plan into actions and generate positive outcomes can itself be a source of competitive advantage.

The introduction of performance contracting in the Ministry of Transport was aimed at improving efficiency and effectiveness in the management of service delivery. However, employees and staff have a feeling that the process is cumbersome and assessing performance may be unreliable because supervisors may be biased. Supervisors on the other hand tend to resist the appraisal system since it places them in the position of being a judge with the employee being the defendant. There is a general perception that development of strategic planning does not involve all stakeholders which may lead to lack of ownership and in turn makes it difficult to achieve strategic objectives. This research therefore sought to find out whether the intended purpose of performance contracting has actually been achieved from the top level management's point of view. To achieve this, the researcher tried to establish the top level management's perception of performance contracting in the Ministry of Transport.

Korir (2008) researched on the management's perception of performance contracting at Kenya Revenue Authority (KRA) and found out that performance contracting is viewed to have helped improve external accountability and increase internal efficiency and effectiveness. Magu (2011) in his study of management's perception of performance contracting at the Ministry of Agriculture, Kenya, discovered that managers perceive performance contracting as a new concept which is yet to achieve its intended purpose. Muli (2011) undertook a research on Chief Executive Officer's Perception of

Performance Contract Evaluation System in State Corporations in Kenya. As evident, many studies of performance contracting have been researched extensively in the past but performance contracting at the Ministry of Transport has not received as much attention. This is the knowledge gap that this study intends to close. The research question of this study is; what is the top level management's perception of performance contracting at the Ministry of Transport in Kenya?

1.3 Research Objective

The objective of this study was to determine the top level management perception of Performance Contracting in the Ministry of Transport, Kenya.

1.4 Value of the study

This study offers an opportunity to the Ministry of Transport to formulate policies and procedures that will eliminate cumbersome and unnecessary rules and regulations which has hindered quick decision making in the organization. This will reduce bureaucracy in the system which has killed thinking, innovation and creativity.

This research also challenges the Ministry to consider introducing other ways of measuring performance for example the Balance Score Card (BSC). This is a strategic performance management tool that can be used by managers to keep track of the execution of activities by the staff within their control and to monitor the consequences arising from these actions. It considers not only financial measures, but also customer, business process, and learning measures.

This study enhances the understanding on how performance contracts work in practice. It offers practitioners a link between research and practice. Every organization is unique in its own ways of approaching problems and conducting activities. Its own mix of managerial personalities and practice and the context in which it operates is different.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The goal of this chapter is to look at literature review critically. It provides the linkage between strategic management and implementation, Results-based management and Performance Contracting as well as perception and factors influencing perception.

2.2 Results Based Management

According to Hallberg (2006) results- based management (RBM) is defined as a management strategy focused on performance and achievement of outputs, outcomes and impacts. RBM is a system to improve management effectiveness and accountability and is oriented towards achieving results. It uses results as a basis for planning, management and reporting and aims to improve performance by comparing and analyzing actual results against planned results through regular monitoring, evaluation, reporting, feedback and adjustments.

United Nations Development Group (2010) argue that results-based management is a management strategy by which all actors on the ground, contributing directly or indirectly to achieving a set of development results, ensure that their processes, products and services contribute to the achievement of desired results (outputs, outcomes and goals). RBM rests on clearly defined accountability for results and requires monitoring and self-assessment of progress towards results, including reporting on performance. RBM is seen as a life-cycle approach starting with elements of planning, such as setting the vision and defining the results framework. Once it is agreed to pursue a set of results through a programme, implementation starts and monitoring becomes an essential task to

ensure results are being achieved. Finally, monitoring and evaluation provide invaluable information for decision-making and lessons. There are three salient features of RBM: accountability, national ownership and inclusiveness. These features should be embodied in results-based management from beginning to end (Mupa, 2011).

Results based management is inevitable in contemporary organizations because unmanaged performance is chaotic. Accountability is the highest challenge facing contemporary organizations especially those in the public service domain. However, the truth of the matter is that people cannot be held accountable if nothing is expected of them. This means that Results Based Management has the answer to service delivery woes in the public sector where empowered people should be their own performance managers (Rukasha et-al, 2011). The introduction of performance contracting whose common purposes are to clarify the objectives of service organizations and their relationship with government, and facilitate performance evaluation based on results is an important milestone.

2.3 Agency Theory

Agency theory originated from the economic risk sharing literature which addressed the problems arising from cooperating individuals or groups with divergent attitudes and interests toward risk (Arrow, 1971). It emerges in the case where the principal engage another person (agent) to perform some service on their behalf which involves delegating some decision making authority to the agent. Agency problems exist when the principal cannot verify the appropriateness of the agent's behavior (Nilakant and Rao, 1994). This

is the case when the desires or goals of the principal and agent conflict which makes it difficult for the principal to verify what the agent is actually doing.

The overarching aim of agency theory is thus to determine an optimum contract for the governance of principal- agent relationship which at the same time reduces the agency costs (Jensen and Meckling, 1976). Information asymmetry between principals and agents is not necessarily a bad thing, but it can make it difficult for principals to measure how an agent is performing and thus hold the agent accountable for how well he or she is using the entrusted resources. To an extent, principals have to trust the agent to do the right thing. Of course, this trust is not blind principals do put mechanisms in place whose purpose is to monitor agents, evaluate their performance and take corrective action if necessary Hill and Jones (2007). To minimize agency problems, principals have resorted to defining an agent's responsibility in a contract and including elements like bonus incentives that help align executives' and owners' interests. The contract is between the owner of an enterprise on the one side and management of the enterprise on the other, setting out certain targets or results to be achieved in a given time frame. It also enumerates the mutual obligations of the two parties in achieving the targets set in the contract.

2.4 Performance Contracting

The American Heritage Dictionary (2009) defines performance as the results of activities of an organization or investment over a given period of time and Lane (1987) defines a contract as a binding agreement between two or more parties for performing, or refraining from performing some specified act(s) in exchange for lawful consideration.

OECD (1999) defines performance contract as a range of management instruments used to define responsibility and expectations between parties to achieve mutually agreed results. Performance contracting as part of strategic management is, therefore, defined as a binding agreement between two or more parties for performing, or refrains from performing some specified act (s) over a specified period of time. It is a branch of management control systems which provide information that is intended for managers in performing their jobs and to assist organizations in developing and maintaining viable patterns of behaviour (CAPAM, 2005).

As part of performance management, performance contracting is a central element of new public management, which is a global movement reflecting liberation management and market-driven management. Liberation management means that public sector managers are relieved from a plethora of cumbersome and unnecessary rules and regulations which usually hinders quick decision making in the organization (Gianakis, 2002). The debate in the public sector has been more complex than just increasing the effectiveness of strategic management systems and narrowing the gap between ambitious strategies and annual planning. The main concern has been to improve external accountability and increase internal efficiency and effectiveness at the same time. In particular, performance contracting is seen as a tool for improving public budgeting, promoting a better reporting system and modernizing public management while enhancing efficiency in resource use and effectiveness in service delivery (Greiling, 2006).

2.5 The Process of Performance Contracting

Sean (2009) points out that performance contracting should be much more than a process for documenting and delivering feedback, coaching and ratings. He believes that when expanded beyond these basics, performance contract becomes a powerful tool for helping employees develop and achieve their full potential. Processes should be fairly standard and be able to address agency objectives. The amount of detail provided depends on the level of guidance required to support the needs of business units. Performance management process typically involves four main stages namely work plan management, skills development, performance monitoring and evaluation, and rewarding of outstanding performance. In terms of work plan management, it is based upon business plans and other corporate documents, key deliverables and areas of responsibility to which staff members will contribute are determined.

On the other hand, in terms of skills development, the staff member and the manager identify and agree the learning, development and information needs of the staff member to meet their performance and the business needs of the business unit. This would include selecting options and the development of an action plan to access the opportunities identified (Armstrong, 2006). Similarly, under performance monitoring, the staff member provides regular feed back to the manager on their progress towards the achievements of the agreed performance objectives .The manager provides regular formal and informal feedback on their assessment of the staff member's achievements.

A staff member and manager agree on the work and responsibilities of the staff member's position. The contract will also set out how the staff members' performance will be measured or evaluated against set objectives. Within the context of performance evaluation, Armstrong and Baron (2004), argue that the manager and the staff member should regularly (periodically) evaluate the staff member's performance and the achievement of the objectives in the contract as well as the agreed training and development plan. This phase should then feed into the next cycle of the performance management process.

2.6 Purpose of Performance Contracting

An organization's purpose defines the ways in which it relates to its environment. If this purpose is fulfilled, the organization will survive and prosper (Luo & Peng, 1999). The main purpose of the performance contracting according to Armstrong and Baron (2004) is to ensure delivery of quality service to the public in a transparent manner for the survival of the organization. Hope (2001) points out that performance contracts specify the mutual performance obligations, intentions and the responsibilities which a government requires public officials or management of public agencies or ministries to meet over a stated period of time. As part of the performance orientation in government, the common purposes of performance contracting are to clarify the objectives of service organizations and their relationship with government, and facilitate performance evaluation based on results instead of conformity with bureaucratic rules and regulations which have killed thinking, innovation and creativity in the public sector (Hitt *et al.* 1999).

Grapinet (1999) posits that the performance contracting involves a highly structured phase of evaluating results which he considers to be an extremely rigorous technical exercise on one hand and on the other hand a morale-boosting exercise for managers and staff. The performance contract does not actually go into resource appropriations which, although needed for practically all resources, are automatic. He further argues that members of staff are not sufficiently involved in drawing up contracts, a task which in spite of exhortations from central government is still largely the preserve of managers. In management terms, this means that performance goals are all too often perceived as being imposed from above rather than from a collective thought process.

Gore (1996) recognizes the importance of performance contracting when he admits that in the United States federal government, performance contracts are in one way or the other changing the way many bosses do their jobs. Gore believes that many managers have changed their attitude towards workers which in turn has encouraged innovation and good customer service. On the other hand, Hill and Gillespie (1996) argue that performance contracting is expected to increase accountability because clear and explicit managerial targets, combined with managerial autonomy and incentives to perform, make it easier to establish the basis for managerial accountability and to achieve outputs. Further, Therkildsen (2001) speculates that performance contracts if well executed increase political accountability by making it easier for managers to match targets with political priorities. Politicians can, in turn, hold managers accountable for their performance as being witnessed in many developing nations.

2.7 The Effects of Performance Contracting

The principle of performance contracting provides an original combination of increased operational autonomy in the field of service delivery and a better strategic control by the organization. But what are the effects of such an increase of the operational autonomy on the internal management of the organization and its external relations? Performance contracting has a direct bearing on the productivity of the organization. This effect can be examined from four fronts: Human Resource Management, Financial Management and Cost Consciousness, Internal Organization and External Relations (Bouckaert, *et al.*, 1999).

The new personnel statutes have improved the performance of human resources management and increased the flexibility of allocating the right person to the right job. It is also expected that outstanding performance is rewarded through promotion, pay-increase or recognition. Although various performance contracts do not clearly spell out the pejorative measures taken against mediocre performance, it is assumed that the punishments are clear. With the creation of affiliated companies with widespread contractual employment, there are increasing concerns about the legal position of the personnel and about the growing fragmentation of employment regimes. This may affect mobility between the different business units (GoK, 2005).

The use of performance-based contracts has induced an increased cost consciousness. The organizations have to develop cost-accounting systems and provide yearly financial statements. The information provided improves the government's capacity to control the

organization's financial practices. There is a positive financial return to the government in case performance results exceed set targets. These positive corrections are dependent, however, on developments of the overall budgetary position of the government and are therefore limited.

Moy (2005) in his final report to the office of Financial Management which summarized the results of their literature search and state survey on the best practices and trends in performance contracting in a number of state and local agencies in Washington D.C. indicates that the use of performance contracts and the accompanying increase of operational autonomy had induced some developments in the internal structures of the agencies under study. A number of questions were sent to each of the seven selected agencies and the responses were quite interesting. Three of the four states changed to performance based contracting to achieve better results. The study reveals that the implementation of performance based contracting ranges from state-wide, agency wide, to only within specific agency divisions or programs and that its impacts in each state agency varied, but including increased accountability for service delivery and deliverables and increased partnership between the contractor community and the state agency. The study further indicates that states agencies had defined performance as deliverables, outputs, outcomes, and effectiveness and efficiency, among others.

With respect to changes in customer relations, new interfaces and instruments are installed, resulting in increased client-orientedness. Most state corporations and government ministries in Kenya now have functional customer care and public relations

offices. These offices have acted as valuable instruments for introducing a client focus. However, the functioning of these offices is hampered, in some cases, by the insufficiency of financial and human resources (Brynaert, 1994).

Performance contracting has been instrumental in helping state corporations and government ministries to introduce instruments to monitor client satisfaction. Examples of such instruments are the client help desks in all government ministries, accessible complaint channeling via the internet and other avenues, and annual reporting of performance and challenges to the public (Bouckaert, Verhoest and De Corte, 1999). In order to increase the reliability and validity of performance measurements, various approaches are recommended such as multiple raters, combination of objective and subjective criteria, and so on.

2.8 The Concept of Perception

The oxford dictionary defined perception as the way in which something is regarded, understood or interpreted. Perception can also be seen as the process by which people translate sensory impressions into a coherent and unified view of the world around them. Though necessarily based on incomplete and unverified (or unreliable) information, perception is equated with reality for most practical purposes and guides human behavior in general. Rao (2008) argues that perception is the process by which an individual selects, organizes, and interprets information inputs to create a meaningful picture the world. Perception depends not only on the physical stimuli, but also on the stimuli's relation to the surrounding field and on conditions within the individual. The key point is that perception can vary widely among individuals exposed to the same reality. One

person might perceive a fast-talking salesperson as aggressive and insincere or another, as intelligent and helpful. Each will respond differently to the salesperson. Nelson and Quick (1997) describe the three major characteristics that influence our perception of other people and situations as:

As Schermerhorn et-al (2011) notes the many factors that influence management's perception include characteristics of the perceiver, the setting and the perceived. A person's past experiences, needs or motives, personality, values and attitudes may all influence the perceptual process. Past experiences implies that, compared to others, we are better positioned to make observations leading to better relative ability to arrive at superior decisions about a particular situation. However, you must note that for you to perceive someone accurately you must have generated accurate data on that person during the stage of observation.

The setting is also a very significant factor that affects the impression that is formed about someone by an individual. In other words, the social context of the interaction is a major influence. The physical, social and organizational context can influence the perception process. Characteristics of the perceived person, object or event are also important in the perception process. When an individual looks at a target and attempts to interpret what he or she sees, that interpretation is heavily influenced by the personal characteristics of the individual perceived (Nelson and Quick, 1997).

Management's perception of performance contracting therefore may be influenced by factors such as the context or environment in which they work, their familiarity with the

process of performance contracting and their personal characteristics. Issues such as organization culture largely dictate how managers and employees perceive performance contracting. Policies, regulations and procedures that govern the running of every day's activities also determine the behavior of managers in the institution. Bureaucracy hinders quick decision making in the organization (Gianakis, 2002).

2.9 Strategic Management

Strategic management is defined as the set of decisions and actions resulting in the formulation and implementation of strategies designed to achieve the objectives of the organization (Pearce II and Robinson, 2007). Strategic management is the process of examining both present and future environments, formulating the organization's objectives, and making, implementing, and controlling decisions focused on achieving these objectives in the present and future environments (Smith, Arnold and Bizzell, 1986). Finally, according to Porter (1996), strategic management is about achieving competitive advantage through being different – delivering a unique value added to the customer, having a clear and enactable view of how to position yourself uniquely in your industry.

While there is much debate on the definition, there is agreement that strategic management is concerned with the match between a company's capabilities and its external environment. Strategic management is no longer about planning or 'visioning', it is about using careful analysis to understand and influence a company's position in the market place. Hamel (2000) argues that the best strategy is geared towards radical change

and creating a new vision of the future in which you are a leader rather than a follower of trends set by others.

2.9.1 Strategy Implementation

Alkhafaji (2003) agrees that strategy formulation and strategy implementation are two sequential stages of the strategic management process. Strategy formulation consists of determining the organization's mission, goals and objectives and selecting an appropriate strategy. Strategy implementation is followed by evaluation and control. Although each of these strategic management stages can be considered individually, they are all interrelated and must build upon one another to form the overall, integrated process. According to Morden (2007) the process of putting the enterprise's chosen strategies and plans into practice takes place within the internal context and constraints of the people, the leadership, the structure, the resources, the capability and the culture of the organization. Strategy implementation also takes place within the context and constraints of the external, political and competitive environments. Strategy implementation will depend on the nature of the knowledge, technology and competence and resources available to the enterprise. The implementation of strategies will be constrained by the need to make the best use of the available resources to meet financial obligations and to ensure survival in the face of increasingly harsh demands of performance-oriented public sector decision makers.

To be considered effective, a chosen strategy must be implemented successfully. The ability to translate the strategic plan into actions and generate positive outcomes can itself be a source of competitive advantage. However, this translation of thoughts (strategic

planning) into action (strategy implementation and control) causes a major challenge. The profound differences between strategic planning and strategy implementation and control are exacerbated by the fact that different groups of managers are involved in the two processes (Muralidharan, 1997). Result-based management has helped resolve this menace because it ensures all actors on the ground, contributing directly or indirectly to achieving a set of development results, ensure that their processes, products and services contribute to the achievement of desired results. It rests on clearly defined accountability for results and requires monitoring and self-assessment of progress towards results, including reporting on performance.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the methodological approach the study took. It includes the research design, target population, a description of data collection method and data analysis.

3.2 Research Design

A research design is the blueprint for the collection, measurement and analysis of data (Robson, 1993). The research design that this study adopted is a case study, qualitative research techniques were employed.

A case study of the Ministry of Transport was deemed appropriate for the study because it provides an in depth study of the situation rather than a sweeping statistical survey. A case study also provides more realistic responses than a purely statistical survey. The study tried to determine the top level management perception of Performance Contracting in the Ministry of Transport and therefore the managers were the units of analysis.

The target group of this study entailed all top level managers at the Ministry of Transport who sign Performance Contracts. Managers who sign Performance Contracts are the heads of Departments and Divisions. The total number of departments and divisions in the Ministry are 16. These are Air Transport, Road Transport, Railway Transport, Shipping and Maritime, Air Accident Investigations, Engineering, Administration, Finance, Central Planning and Project Monitoring Unit, Accounts, Internal Audit, Human Resource Management, Human Resource Development, Supply Chain Management,

Public Relations and Information Communication Technology (ICT). Therefore the researcher interviewed sixteen (16) respondents.

3.3 Data Collection

The researcher made use of pure primary data collected by use of interview guide (appendix 1). Qualitative interviewing tends to be flexible, responding to the direction in which interviewees take the interview and perhaps adjusting the emphases in the research as a result of significant issues that emerge in the course of interviews. The researcher interviewed the respondents during normal working hours to maximize on the response rate due to availability of the respondents.

3.4 Data Analysis

The raw data collected was inspected and edited for completeness. Content analysis was used to analyze qualitative information collected in the survey. This technique is mainly used for making inferences by objectively and systematically identifying specified characteristics of the data. Content analysis also provides an empirical basis for monitoring shifts in public opinion. Data collected from this study can be objectively compared to data collected at some point in the future to determine if policy changes related to performance contracting have manifested themselves. The results and findings of the analysis are presented in the chapters that follow.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

The purpose of this study was to establish the top level management's perception of performance contracting at the Ministry of Transport in Kenya. This chapter describes the analysis and interpretation of data collected from the field with regard to the objective of the study. The data was collected from 12 heads of departments and divisions at the Ministry of Transport.

The researcher was able to interview 12 respondents out of the targeted 16 making a response rate of 75% which the researcher considered adequate for analysis. This response rate was reached because the researcher conducted the interviews during working hours. The respondents found the study interesting since it focuses on a topic of mutual interest. The researcher encouraged the participants to get involved and talk about their views. In addition, the interviewees were able to discuss their perception and interpretation in regards to the given situation.

4.2 General Information of the Respondents

The researcher was able to seek the perception and views of various heads of departments with regards to performance contracting in the Ministry. The respondents comprised of both male and female in the age bracket ranging from 40 to 55 years. The 12 respondents who participated in the research are heads the following departments: Air Transport, Shipping and Maritime, Air Accident Investigations, Administration, Finance, Central Planning and Project Monitoring Unit, Accounts, Internal Audit, Human Resource

Management, Human Resource Development, Supply Chain Management, and Information Communication Technology (ICT).

The study sought to establish the period the interviewees have been working at the Ministry of Transport. From the findings majority of the respondents indicated that they have continuously worked for more than 5 years in the Ministry of Transport implying that they had enough experience in the Ministry to be able to give meaningful information and insights that would help answer the research question about the top level management's perception of performance contracting at the Ministry.

4.3 The Impact of Performance Contracting in the Ministry

The main purpose of the performance contracting according to Armstrong and Baron (2004) is to ensure delivery of quality service to the public in a transparent manner for the survival of the organization. On whether service delivery in the Ministry of Transport has improved with the introduction of performance contracting, the interviewees indicated that service delivery has improved to a great extent. This is because targets set in the contract must be achieved within the agreed period. Therefore officers struggle to meet the targets to avoid poor grading during the appraisal period. The interviewees also pointed out that performance contracting has also brought the idea of accountability which was lacking in the public service.

The respondents noted that measurement of performance and evaluation of officers' achievements has greatly encouraged them to meet their performance targets and the business needs of the business units. Similarly, the interviewees further noted that under

performance monitoring, the staff members provide regular feed back to the manager on their progress towards the achievements of the agreed performance objectives .The manager in turn provides regular formal and informal feedback on their assessment of the staff member's achievements.

4.4 Achievement of targets set in the Strategic Plan

The interviewees were required to determine whether performance contracting has helped achieve the targets set in the organization's strategic plan. From the findings, it was clear that performance contracting has helped achieve the targets set in the organization's strategic plan. This is because targets in the performance contracts are drawn from the targets set out in the strategic plan for the institution. To achieve the plan it is broken down into annual activities which are the ones included in the performance contracts. Implementation is based on the concept of cascading depending on the mandate and responsibility of each department.

However, a percentage of the respondents acknowledged the fact that few officers are aware of the existent of a strategic plan and its content. In this case some targets that are set in the performance contracts are not in line with the objectives of the strategic plan.

4.5 Achievability of targets set in the Performance Contracts

On whether the targets set in the performance contracts are achievable, the interviewees agreed that the targets are achievable. In addition some of the interviewees indicated that the targets are smart. The reason for this is that managers who are implementers of the

strategic plans are involved at the formulation stage and therefore there is ownership of the process. Other officers are also involved in target setting.

The interviewees appreciated the fact that staff members and managers agree on the work and responsibilities of the staff member at the beginning of the contract period. The staff member and the manager identify and agree the learning, development and information needs of the staff member to meet their performance targets. The contract also set out how the staff members' performance will be measured or evaluated against set objectives. Within the context of performance evaluation, Armstrong and Baron (2004), argue that the manager and the staff member should regularly (periodically) evaluate the staff member's performance and the achievement of the objectives in the contract as well as the agreed training and development plan.

4.6 Facilitation of Employees to encourage Performance

Asked whether the Ministry provided resources necessary to facilitate employees in achieving their targets and encourage performance, the interviewees indicated that there was no facilitation at all. Facilitation in terms of provision of stationary, transport and favourable working environment was found missing according to the research findings. This was attributed to bureaucracy brought about by cumbersome and unnecessary rules and procedures which usually hinders quick decision making in the organization.

The interviewees noted that procurement of office materials such as photocopiers, toners and other computer accessories took unreasonably long thus demoralizing the employees. Securing approval for travels to attend international meeting is subjected to bureaucratic

rules causing unnecessary delays. On the other hand, the interviewees positively noted that issuance of imprests for tea and drinking water was timely. Stability and availability of resources is vital for the success of performance contracting and therefore the top leadership must ensure that necessary resources are available at all time. The political top leadership must also respect the operational autonomy of the contracted organizations/ministries.

4.7 Training of Managers on Performance Contracting

Armstrong (2006) believes that knowledge of strategic planning, its development and monitoring capacities among the staff is central to success of performance contracting. The interviewees were expected to explain if they were trained on the implementation of performance contracts in the Ministry and how often the training is conducted. From the findings, it was established that a formal training was organized for the top level managers at the inception of the whole concept of performance contracting. The interviewees noted that the training was very vital and helped them embrace the idea of measuring performance. As a result, many managers have changed their attitude towards workers which in turn has encouraged good working relations and good customer service. On how often the training is conducted, the interviewees indicated that the training is conducted occasionally and other interviewees were not aware of any training.

4.8 Promotion as a reflection of Appraisal Results

Nahavandi (2006) points out that outstanding performance should be rewarded through promotion, pay-increase or recognition which should be negotiated on signing the performance contract. He further speculates that those who adhere and fit the

organizational culture and structure, as well as meet individual goals and objectives are much more likely to be promoted to top leadership positions – as opposed to those who do not. Asked to determine the extent to which promotions of staff in the Ministry is a reflection of the appraisal results, the interviewees explained that the appraisal results/ ratings determine to a great extent whether an employee will be promoted or not. It was revealed that promotions of staff in the job groups ‘A-L’ are done within the Ministry by the Ministerial Human Resource Management Advisory Committee (MHRMAC) while those in the job groups ‘M-T’ are done by the Public Service Commission (PSC).

During the MHRMAC meetings and whenever there is a case of promotion in the agenda, the interviewees indicated that the Human Resource Management (HRM) department being the secretary to the Committee presents all the details of the candidate to be promoted. Appraisal results are scrutinized keenly focus being on the agreed performance targets at the beginning of the contract period, targets achieved and proof of performance. At the same time the Committee notes if there were any targets changed or added during the mid year performance review. Any constraints or challenges experienced during the period are taken into consideration.

4.9 Training and Development of Managers in the Ministry

On whether training of managers in the Ministry are based on the recommendations of the appraiser, it was discovered from the research findings that training does not necessarily depend on the recommendations of the appraiser. The interviewees noted that although during the appraisal period the appraisee is required to indicate their training

and development needs, this is never taken as seriously as it should be. The Human Resource Development (HRD) department conducts a training needs assessment as per the existing training policy based on the requirements of the Scheme of Service of a particular department and the availability of funds. According to Armstrong (2006), in terms of skills development, the staff member and the manager identify and agree the learning, development and information needs of the staff member to meet their performance and the business needs of the business unit. This would include selecting options and the development of an action plan to access the opportunities identified

4.10 Existence of a Reward System

With regard to rewarding outstanding performance, there is need to reward outstanding work which is recognized from the evaluation reports. The top performers need to be rewarded in various ways ranging from recognition to award of medals and other material endowments (Armstrong, 2006). According to the research findings, the interviewees were not aware of any reward system in place in the Ministry. They went further to indicate that if there is one in place then it has not been fully implemented. As per the appraisal results officers who have exceeded their performance targets as agreed at the beginning of the contract period are supposed to be awarded a bonus of one month's basic salary for excellent performance upon approval by the Authorized Officer. On the other hand, in case of poor performance an officer is supposed to be sanctioned in form of a warning/cautionary letter or dismissal/ termination of appointment for very poor performance.

It was clear that none of the above has been implemented mainly because of bureaucracy in the case of rewards and fear of intimidation in case of poor performance. As a result the officers are not motivated at all and therefore performance contracts are entered into as a requirement rather than a morale-boosting exercise. The interviewees perceived a reward system as an important tool for motivation.

4.11 Challenges Experienced in the Process of Performance Contracting in the Ministry

With regards to challenges, it was evident that there exist many challenges with the process of performance contracting in the Ministry. The interviewees cited several challenges. First, training and sensitization was the as the major challenge experienced. As was pointed out earlier, training is not done frequently as it should be. Officers in the lower cadres have never received any form of training which makes it difficult for them to understand the essence of performance contracting. Second, commitment and support from the top leadership is lacking. The reason for this is that the top leadership has not yet embraced the whole concept of performance contracting and is still stack to the Carrot-and-Stick policies and behaviour which were common in the 19th Century Industrial Age which has become increasingly irrelevant to modern management practices.

Third, reliability of performance assessment results poses a challenge to most managers. This is because the appraisal system tempts the supervisor to favour close friends and associates. Because it is natural to see favourable characteristics in friends, the supervisor

may never realize that favouritism is influencing his appraisals. Lastly, the interviewees noted that performance contracting being a new concept has not yet been embraced by all employees. However, they were optimistic that eventually performance contracting if taken with the seriousness it deserves will yield results.

4.12 Suggestions for improvement of Performance Contracting in the Ministry

The interviewees suggested that regular training and sensitization be organized for all staff. This will help everyone participate and appreciate the process of performance contracting. Commitment and support from the top leadership is paramount if the intended purpose of performance contracting is to be realized. From the research findings the interviewees also suggested that the reward system should be effectively implemented and even consider introducing an internal reward system for each department. Reduction of bureaucracy in the system which has killed thinking, innovation and creativity in the public sector is long overdue. Lastly, it was suggested that the Ministry should consider introducing other ways of measuring performance for example the Balance Score Card (BSC).

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary, conclusion and recommendations in relation to the results and findings on the top level management's perception of performance contracting at the Ministry of Transport in Kenya. The conclusion and recommendations were drawn with the quest of addressing the research question and objective of the study.

5.2 Summary of the Findings

The researcher found out that majority of the respondents perceive performance contracting as a proactive management tool that has helped improve service delivery to the public. They perceive it as a movement reflecting liberation management and market-driven management for achieving organization goals and objectives, through a structured and continual process of motivating and measuring individual and team performance.

The study also found out that performance contracting has helped achieve the targets set in the organization's strategic plan. This is because targets in the performance contracts are drawn from the targets set out in the strategic plan for the institution. However, it was discovered that in some cases targets set in the performance contracts do not conform to those in the strategic plan.

It was established from the research findings that targets in the performance contracts are achievable since the formulation of the targets is an all-inclusive exercise. Managers are sufficiently involved in drawing up contracts, a task which was largely the preserve of

central government. In management terms, this means that performance now perceived as a collective thought process.

Facilitation of employees in terms of providing necessary working tools and favourable working environment was found to be lacking according to the research findings. This was attributed to bureaucracy brought about by cumbersome and unnecessary rules and procedures which usually hinders quick decision making in the organization.

The study established that a formal training was organized for the top level managers at the inception of the whole concept of performance contracting. This was perceived as an important step which helped managers change their attitude towards workers which in turn has encouraged good working relations and good customer service. However, from the research findings, it was found out that training on performance contracting is done occasionally.

The interviewees noted that promotion of staff in the Ministry is a reflection of the appraisal results. The appraisal results/ reports influence to a great extent whether an employee will be promoted or not. They further noted that training and development in the Ministry is not necessarily based on the recommendations of the appraiser in the appraisal report. The Human Resource Development (HRD) department conducts a training needs assessment as per the existing training policy based on the requirements of the Scheme of Service of a particular department and the availability of funds.

The study also revealed that although performance contracting has helped achieve the targets set in the organization's strategic plan this process has not been without challenges. The challenges that are experienced include lack of training and sensitization, commitment and support from the top leadership is lacking, reliability of performance assessment results which poses a challenge to most managers and lastly performance contracting being a new concept has not yet been embraced by all employees.

5.4 Recommendations

From the discussions and conclusions in this chapter, the researcher recommends that for the Ministry of Transport to succeed in the implementation of the concept of performance contracting all staff in the Ministry have to be trained and sensitized on the importance performance contracting. The Ministry's top leadership should embrace the idea of performance contracting and demonstrate commitment and support in terms of provision of resources. The researcher also recommends that a reward system should be instituted and be effectively implemented. The Ministry should also consider introducing an internal reward system for best performers in each department.

Public sector managers should be relieved from a plethora of cumbersome and unnecessary rules and regulations which has hindered quick decision making in the organization. It is further recommended that the Ministry should reduce bureaucracy in the system which has killed thinking, innovation and creativity. Lastly, the researcher recommends that the Ministry should consider introducing other ways of measuring

performance for example the Balance Score Card (BSC). This is a strategic performance management tool that can be used by managers to keep track of the execution of activities by the staff within their control and to monitor the consequences arising from these actions. It considers not only financial measures, but also customer, business process, and learning measures. The balanced scorecard translates the organization's strategy into four perspectives, with a balance between internal and external measures, objective measures and subjective measures and performance results and the drivers of future results.

5.5 Limitations of the Study

Due to financial constraints the researcher could not carry out an exhaustive and extremely comprehensive research on the top level management's perception of performance contracting in the Ministry. The limitations of time could not also allow the researcher to attain 100% response rate in data collection. However, the response rate attained was a good representative of the targeted respondents.

This being a case study on one ministry, the data gathered might differ from those of other ministries. This is because the environments in which these organizations operate and the management practice applied differ to a great extent. The study however, constructed an effective research instrument that sought to elicit general and specific information on the research topic.

5.6 Suggestions for Further Research

This study focused only on the top level management's perception of performance contracting at the Ministry of Transport in Kenya. Performance contracting is still a relatively new and evolving concept, not all facets are well understood- especially performance contracting as viewed and experienced by junior employees. To advance understanding of effective performance contracting in the Ministry of Transport, the junior employee perspective is needed. The researcher therefore recommends that further research be conducted to look at junior employees' perspective of performance contracting.

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Appendix I

Interview Guide

1. Gender of respondent.
2. Which Department do you head?
3. How long have you continuously served in the Ministry of Transport?
4. In your opinion, is there a correlation between performance contracting and service delivery in the organization?
5. In your opinion does performance contracting assist in the achievement of targets set in the strategic plan?
6. Are the targets set in the performance contracts achievable?
7. Has the Ministry provided resources necessary to facilitate employees in achieving their targets and encourage performance?
8. Were you as a manager trained on the implementation of Performance contracts in the Ministry?
9. To what extent does promotion in the Ministry reflect the appraisal results?
10. Is training of managers in the Ministry based on the recommendations of the Appraiser?
11. To what extent do you perceive the reward system in place (if any) as motivating the employees to meet their expectations?
12. Are there any challenges you have encountered with the process of Performance Contracting in the Ministry?
13. What suggestions or comments would you make about the improvement of Performance Contracting process in the Ministry of Transport?



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Ref. No. 2007045912/63

28th June, 2012

Ms. Angela C. Rugut
Ministry of Transport
P.O. Box 52692-00200
NAIROBI

RE: AUTHORITY TO CARRY OUT RESEARCH

I refer to your letter dated 25th June, 2012 in which you requested for permission to carry out a research project report on Performance Contracting in this Ministry.

By copy of this letter authority is hereby granted to carry out the research. While conducting your research, you will be required to adhere to the Ministry's rules and regulations.

M. M. Maina

For: PERMANENT SECRETARY

.....Transport for Prosperity.....



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DATE 20/06/2012

TO WHOM IT MAY CONCERN

The bearer of this letter RUGUT CHEROTICH ANGELAH

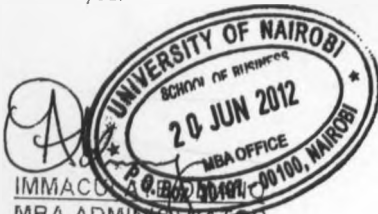
Registration No D61/75204/2009

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

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

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

Thank you.



IMMACULATA
 MBA ADMINISTRATOR
 MBA OFFICE, AMBANK HOUSE