

**PERCEIVED EFFECT OF PERFORMANCE CONTRACTING ON  
PERFORMANCE OF KENYA AGRICULTURAL RESEARCH INSTITUTE**

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE  
REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER OF  
BUSINESS ADMINISTRATION (MBA), SCHOOL OF BUSINESS, UNIVERSITY  
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**2014**

**DECLARATION**

**STUDENT'S DECLARATION**

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

Signature.....

Date.....

**MURIU SAMUEL MBURU**

**D61/73364/2012**

**SUPERVISOR'S DECLARATION**

This project has been presented for examination with my approval as University Supervisor

Signed .....

Date.....

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## **DEDICATION**

I dedicate this project to my loving wife Hannah, son John and my parents for their encouragement throughout my course.

## **ACKNOWLEDGEMENTS**

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I would also like to thank Kenya Agricultural Research Institute for availing the data I so much needed to complete this project within the time allocated to me. Special thanks go to the proposal presentation panel and colleagues who were present during the presentation of this project proposal.

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## **ABSTRACT**

The purpose of this study was to establish the effect of performance contract on performance of Kenya Agricultural Research Institute. The study reviewed literature on organizational performance and performance contracting. Interview guides were used to collect primary data from 1 deputy director, 2 assistance directors, 3 centre directors and 1 chief of division, 2 senior research and 1 principal administrative officer from Kenya Agricultural Research Institute. Content analysis was used to analyze the data. The study findings shows that performance contracting increases service delivery at the institute, as overwhelmingly attested to by the findings, and greatly so, going by the respondents' high levels of agreement. It also was found that performance contracting greatly influences the institutions' standards and performance targets which is an important proxy in determining the organizations' effectiveness, as overwhelmingly attested to by the findings. Since this was a case study, it is recommended that a survey be done involving all state corporations to ascertain whether the findings of this study are common across the sector.

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background of the Study**

Performance contracts have their origins in the general perception that the performance of the public sector in general and government agencies in particular, has consistently fallen below the expectations of the public (Trivedi, 2004). Some of the factors that have inhibited the performance of government agencies have been identified as excessive regulations and control, multiplicity of principals, frequent political interference, poor management outright mismanagement and bloated staff establishments (G.O.K, 2005). Scott (1996) also says that public sectors in most African countries are presently viewed as over-extended suffering managerial problems and accused of poor service delivery. Their problem stem from unclear and conflicting objectives, lack of autonomy and accountability, pricing problems and inadequate management information systems

Performance contracts are based on the premise that what gets measured gets done. The results of performance contracting have been mixed. In some countries there has been a general sustained improvement in public enterprise management while in other countries some public enterprises have not responded or have been prevented by government policies from responding (Siambi, Mugo and Ochieng, 2000). Although performance contracts received official recognition by the Kenya government in 1991, the policy decision to introduce performance contracts in the management of public resources was in earnest conveyed in the policy paper on Economic Recovery Strategy for wealth and Employment Creation (2003-2007) popularly known as ERS. The strategy initiated the program of performance contracts for chief executives of state corporations and

permanent secretaries as a strategy to improve efficiency of the public sector. It outlined the governments' commitment to. Improve performance, corporate governance and management in the public service through the introduction of performance contracts. Kenya Agricultural Research Institute (KARI) is one of the state owned enterprises that were placed under performance contracting in June 30th 2005 (KARI, 2009).

### **1.1.1 Concept of Perception**

The perception of an individual, when he or she looks at a target and attempts to interpret what he or she sees is heavily influenced by his/her personal characteristics. Personal characteristics that affect perception include a person's attitudes, personality, motives, interests, past experiences and expectations. People in organizations are always judging each other; managers must appraise their employees' performances and evaluate how much effort they are putting into their jobs. A new person who joins a work team is immediately "sized up" by other members. In many cases, these judgments have important consequences for the organizations and one such specific application is the performance evaluation. An employee's performance appraisal is very much dependent on the perceptual process. An employee's future is closely tied to appraisal, promotions, pay raises and continuation of employment is among the most obvious outcomes. The performance appraisal represents an assessment of the employer's work (Patching, 1999). The process of performance management process include; performance agreements or contracts, personal development plan, managing performance throughout the year, performance review, documentations and evaluation.

According to Hawkins (1989), perception involves the process of exposure, attention and interpretation of information or stimuli. What an individual perceives depends on their characteristics, size and intensity of the stimuli and their exposure to the stimuli. Attention is a fundamental component of perception that is often used to differentiate higher order cognitive processes from those that are purely sensory. Individual differences in abilities and cognitive styles are also important in perception. Perception encompasses all processes; with the recognition, transformation and organization of sensory information, Charterrete and Friedman (1978). Harold (1978) defines perception as a process through which an individual gives meaning to the environment and perceive different things about the same situation. The cognitive approach which focuses an individual's mental process recognizes that firms or rather their managers perceive the environment differently and imperfectly according to Fahey and Nayaranan (1989). Consequently, this approach emphasizes the need to deepen our understanding of managers' mental schemas if we are to understand corporate behaviour and firm's strategic processes more fully.

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

Individuals behave in a given manner based not on the way their external environment actually is but, on what they see or believe it to be. It is the employee's perception of a situation that becomes the basis for behaviour. The manager can successfully plan, organize the work of employees, help them to structure their work more efficiently, and effectively. However, all these efforts might not succeed due to the perception of employees towards those efforts. The issues such as fair pay for work performed, the validity of performance appraisals and the adequacy of the working conditions are not judged by employees in a way that ensures common perceptions, nor can there be assurance that individuals will interpret conditions about their jobs in a favorable light (Ulleberg and Rundmo, 2003).

### **1.1.2 Performance Contracting**

Performance contracting is broader public sector reform aimed at improving efficiency and effectiveness, while reducing total costs according to Organization of Economic Cooperation Development (1999). Performance contracts can be defined as a range of management instruments used to define responsibilities and expectations between parties to achieve mutual agreed results. The agreement clearly specifies their mutual performance obligations, intentions and responsibilities. The contract is intended to address economic, social and other tasks that an agency has to discharge for economic performance and desired results. It organizes and defines tasks so that management can perform them systematically, purposefully and with reasonable probability of accomplishment (Organisation of Economic Cooperation Development, 1999). It also

assists in developing points of view, concepts and approaches for determining what should be done and how to go about it. A performance contract consists of two components namely, performance targets and review and evaluation of periodic and terminal performance. Prior to signing of contracts, training and sensitization is done for senior civil servants, who then cascade it down to the lower staff levels (Kobia, and Mohammed, 2006).

The performance contracting in the Kenyan public service was introduced in 2005. For the civil service, the first level contract is signed between the President and the Ministers. The contract is then signed between the Head of Civil Service and the Permanent Secretaries, then cascades down to the middle and lower cadres of the civil servants (GoK, 2010). Every year, the performance contract of every ministry for the last one year is evaluated by an Adhoc Evaluation team on performance contracting with a view of ascertaining whether the agreed performance benchmarks which every ministry had undertaken to accomplish have been actually achieved and if not give the reasons for failure to achieve those performance targets during the year under review.

The rationale for introducing performance contracts in the public service in Kenya was to address new institutional structures and arrangement for managing and delivering programmes and services such as privatization, commercialization, contracting out and decentralization. Second; systematic reforms market type mechanisms, new budgeting and planning systems, administrative modernization, and decentralization of management) and lastly, new methods of service delivery. While these new methods are

seen as addressing weaknesses in more traditional centralized and compliance based management systems, they bring their own set of problems. Management systems that are disaggregated, decentralized and devolved need a new framework to guide behavior (GoK, 2010). These changes do not only rely on uniform rules for the management relationship or for ensuring accountability in the use of public resource delivery of public services. In view of the shortcomings evident in the systems, countries have adopted the system of performance contracting as a management tool. Performance based contracting has been identified by both the private and public sectors as an effective way of providing and acquiring quality goods and services within available budgetary resources (Mapelu, 2005).

### **1.1.3 Organizational Performance**

Performance is a recurring activity and performance measurement to be meaningful one has to benchmark and make comparisons to it over time, the value of performance management plans is contingent on financial performance measured against objectives set at the start of the company's financial year. Effective management means getting results through top performance of employees (Nickels, 2005). Employee work performance will be determined by job satisfaction and motivation which are concerned as an employee's attitude towards his or her work, organization rewards, social environment, organizations and physical environments in which work is performed may be attributed to inadequate knowledge and skills. Training and proper recruitment is useful in filling such gaps. Performance in firms is managed through performance management, the process by which executives, managers and supervisors work to align employee performance with

the firm's goals (Desseler 2003).

Measurement of performance are broken down into objective or hard indexes and judgmental or subjective measures. Objective measures derive from the measurable actions of an individual or group rather than from subjective judgments about job behavior, such as ratings (Miner 1995). A company's performance can be measured using profitability performance ratios. These ratios measure how effective a firm is using its various resources to achieve profits. Competency and efficiency is closely knitted to the performance and engagement of employees. It emerges that various key factors have had a profound effect on an organizations functioning (Hope, 2001). Studies by various authors have shown the importance of human resource factors such as appraisal systems, employee training and development, recruitment and selection among others.

#### **1.1.4 The Kenya Agricultural Research Institute (KARI)**

The Kenya Agricultural Research Institute which is referred to as KARI. Its acronym, is one of the seven other research institutes established under the Science and Technology Act (CAP 250) of 1979. It is a semi-autonomous research and knowledge generation institute with it's headquartering at Loresho Nairobi and currently under the Ministry of Agriculture (Siambi, Mugo and Ochieng, 2000). It has twenty two (22) main research centers and fourteen. (14) Sub-centers located throughout the country. These centers are strategically placed to cater for different agro-ecological zones and socioeconomic systems. KARI's current Research Programmes are undertaken in six (6) areas, that is: Crops; Livestock; National Resource Management, Socio-Economic applied statistics

and adaptive research; Outreach and Partnerships; and Biotechnology (KARI, 2009). The institute's present strategic plan (2009- 2014) is anchored on the country's long-term development plan, vision 2030 where the agricultural sector is set to play a critical role in the attainment of the vision 2030's targets.

KARI's vision and mission statement are clearly articulated in most of the institute's print-outs and at its website: [www.kari.org](http://www.kari.org). It envisions "a vibrant commercially — oriented and competitive agricultural sector propelled by science, technology and innovation". This vision requires KARI and its stakeholders and partners to stretch their future expectations, aspirations and performance. The mission statement that expresses the fundamental purpose and business of KARI is: "to contribute to increased productivity, commercialization and competitiveness of the agricultural sector through generation and promotion of Knowledge, information and technologies that respond to clients, demands and opportunities" (KARI, 2009). This underscores KARI's role as a premier Research Institute in the agricultural development of the country.

Performance contracting in KARI is first undertaken at the management level of the institute and then cascaded within the institute at lower levels, that is: the Board of Management and the Principle Secretary Ministry of Agriculture signs a performance contract, then, the same Board of Management signs a performance contract with the KARI Chief Executive. This is cascaded down into the lowest management levels, Any KARI officer involved in research is required to sign a performance contract irrespective of his rank in the institute, 'The Director is the Chief Executive Officer and is supported

by three Deputy Directors, ten (10) Assistant Directors, twenty two (22) centre Directors and three Chiefs of Division (KARI, 2009).

The cascading of the performance contracts within the institute is meant to ensure that there is pursuance of the institute targets by the management based at the Headquarters at Kileleshwa, Nairobi and the research Centres, where most of the activities contributing to the attainment of the set targets are conducted (Siambi, Mugo and Ochieng, 2000). These arrangements are in conformity with the United Nations guidelines on performance contracting passed under resolution 48/180 of the General Assembly of UN, on Entrepreneurship and privatization for Economic Growth and sustainable Development (KARI, 2009).

## **1.2 Research Problem**

Performance management has been adopted as a strategic response to competition and market demands by both private and public enterprises. In public management literature, performance management has focused on the contribution of employees to service delivery. Performance contracting enhances employee compliance with targets and enhances quality of service. According to Robins (2007) employee's positive perception of performance contracting boosts their morale leading to increased productivity, job satisfaction, lower turnover, reduced absenteeism and improved quality of service. Negative perception of performance contracting has the opposite outcome and creates indifference towards performance contracting which can lead to staff preferring to

maintain the status quo hence being a barrier to introduction of new technologies among others.

The adoption of performance contracting demanded a paradigm shift in Kenya Agricultural Research Institute. This called for a transformation from a passive, inward looking bureaucracy to one which is pro-active, outward looking and results oriented; one that seeks 'customer satisfaction' and 'value for money'. Kenya Agricultural Research Institute has adopted performance contracting in order to ensure that there is reduction or altogether elimination of reliance on exchequer funding by generating revenue and profit, as an objective basis for divesting loss making government agencies and also giving return to the shareholders by paying dividends or surplus, insuring improved performance to deliver quality and timely services to the citizens and instilling a sense of accountability and transparency in service delivery and the utilization of resources

Previous studies undertaken on performance contract have focused on largely on state corporations. Kachero (2006) conducted a study on employee perception of staff promotion process at the University of Nairobi. The study found that employees don't receive communications about procedures used in promotions and decisions finally reached. Results indicate that most employees are not in the right grades based on their qualifications and University of Nairobi staffing and placement policies. Some have stagnated in the same grade for more than 30 years. There are many instances where employees with similar qualifications, skills, and experience are in varying grades. Moreover, many employees have added to their knowledge and skills through

further training since joining the University but the institution does not recognize these new abilities. The study also found that the most important criteria used for promotion are relationship with the heads of sections/departments/colleges and the ethnic background. Often, external candidates have been preferred for jobs that existing employees could do, and employees strongly disagree with such a policy. The research gap of the study indicates that rules that impede promotion be done away with, qualifications, performance, experience be considered during promotion and a proper policy and procedure for promotion be put in place.

Kiboi (2006) undertook a study on management perception of performance contracting in state corporations. Study found that there is a very high level of awareness of performance contracting in the organizations and that the organization's capacity to achieve its objectives has greatly improved. To a moderate extent, the managers felt that there was mutual support and trust at all levels of the organization and empowerment of employees in their jobs. General conclusions drawn are that the organizations were very successful in to implementing performance contracting, and that to a moderate extent, the organizations have developed a reasonable sense of direction.

Korir (2006) studied on the impact of performance contracting at the East African Portland Cement Company Limited. The study found that performance contracting promoted commitment in revenue collection at the energy corporation to a very great extent. There were challenges in the implementation of the performance contracting program in the energy corporations to a moderate extent. The study therefore need to

investigate on the use of performance contracts as acclaimed as an effective and promising means of improving the performance of public enterprises as well as government departments. Their daily performance and activities should be measured along the specific milestones and core values identified by the contract. Which the two studies did not capture.

Choke (2006) focused on the perceived link between strategic planning and performance contracting in state corporations and found that top management plays a leading role in ensuring successful implementation of Performance Contract, managers have a high positive perception of PC, managers in public enterprise are largely in favour of the introduction of PC and believe there is a strong link between Performance Contract and strategic plans. None of these studies focused on the effect of performance contract on performance. This study addresses this knowledge gap. The pertinent research question, is: what is the perceived effect of performance contract on performance of Kenya Agricultural Research Institute?

### **I.3 Research Objective**

The objective of the study is to establish perceived effect of performance contract on performance of Kenya Agricultural Research Institute

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

This study will be of value to all persons interested in the better performance of the public sector in Kenya since a greater part of this sector has adopted the concept of performance contracting. Thus an evaluation of the effect of this concept on the achievement of organizational goals would provide a good direction in the management of the public sector. The study also offers an opportunity for review of performance contracting within the civil service. It also offers a window for possible amendments and improvements of performance contracting. In addition, the study broadens the knowledge on performance based contracting and provides a basis for further research on the factors perceived by civil servants as inhibiting the success of performance contracting in the civil service.

Secondly, human resource practitioners, consultants and employees and students of management will find the study important because it will enable them understand the effectiveness of performance contracting as a performance management tool. It will also be as basis for further studies especially to students of management. Thirdly and probably most important is that the study will be of use to Kenya agricultural research institute (KARI) which is used as a case study. KARI may wish to know and understand whether the concept of performance contracting as implemented by the institute assists it in achieving its organizational goals. Because of declining global funding for agricultural research, KARI has recognized the need for building institutional capacity towards proper management of existing scarce resources for improved efficiency and effectiveness (KARI strategic plan, 2009-2014). Performance contracting is the performance

management tool that KARI has adopted in its management of the scarce resources available to the institute.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter reviews on literature on organizational performance and performance contracting.

#### **2.2 Performance Contracting**

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

Shirley and Xu (1997) argues that performance contracting assumes that government's objectives can be maximized and performance improved by setting targets that take into

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

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

a mechanism to smooth the public enterprise government interface and increase the autonomy of the enterprise; advocated as an alternative to privatization of public enterprises which are financially viable.

### **2.3 Organizational Performance**

Organizational performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). Organizational performance is the concept of measuring the output of a particular process or procedure, then modifying the process or procedure to increase the output, increase efficiency, or increase the effectiveness of the process or procedure. The concept of organizational performance can be applied to either individual performance such as an athlete or organizational performance such as a racing team or a commercial enterprise or even a farm or livestock production. In performance improvement Organizational performance, is the concept of organizational change in which the managers and governing body of an organization put into place and manage a programme which measures the current level of performance of the organization and then generates ideas for modifying organizational behavior and infrastructure which are put into place to achieve higher output. The primary goals of organizational performance are to increase organizational effectiveness and efficiency to improve the ability of the organization to deliver goods and or services (Camp 2008).

Another area in organizational performance that sometimes targets continuous improvement is organizational efficacy, which involves the process of setting

organizational goals and objectives in a continuous cycle. Organizational performance at the operational or individual employee level usually involves processes such as statistical quality control. At the organizational level, performance usually involves softer forms of measurement such as customer satisfaction surveys which are used to obtain qualitative information about performance from the viewpoint of customers (Robert, 2001).

In an increasingly dynamic and information-driven environment, the quest by business leaders and management researchers for performance measures which reflect competitive productivity strategies, quality improvements, and speed of service is at the forefront of managing company performance to be meaningful, company performance should be judged against a specific objective to see whether the objective is achieved. Without an objective, a company would have no criterion for choosing among alternative investment strategies and projects. For instance, if the objective of the company is to maximize its return on investment, the company would try to achieve that objective by adopting investments with return on investment ratios greater than the company's current average return on investment ratio (Brah et al 2000)

The selection of the most appropriate performance indicators is however, an area with no defining boundaries as there are a number of purposes to which performance Measurement can be put, although not all performance measurement can be used for all purposes Even though individual firms tend to utilize firm-specific performance indicators appropriate to their needs, for many firms the main performance indicators

would typically include some combination of financial; market/customer; competitor; human resource; internal business process; and environmental indicators (Camp 2008).

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

In the performance contract scheme, the state corporations under the performance contract philosophy as pointed out by Kobia and Mohammed (2006) were required to commit themselves to the contract scheme with the expected outcomes in improved performance, decline in reliance on exchequer funding, increased transparency in operations and resource utilization, increased accountability for results, and linking reward on measurable performance. It was also aimed at reducing confusion resulting from multiplicity of objectives, clear apportionment of responsibility for action and improvement in the correlation between planning and implementation while creating a fair and accurate impression on the performance, greater autonomy and creation of enabling legal and regulatory environment.

A performance contract constitutes a range of management instruments used to define responsibilities and expectations between parties to achieve mutually agreed results. It is a useful tool for articulating clearer definitions of objectives and supporting innovative management, monitoring and control methods and at the same time imparting managerial and operational autonomy to public service managers. It is therefore a management tool for ensuring accountability for results by public officials, because it measures the extent to which they achieve targeted results (Greer et al., 1999).

In relation to studies that consider performance contracting and service quality, three

themes emerge: the variations and problems in measurement of quality, the lack of information about the reasons for perceived changes in quality, and the dearth of studies on quality when compared to economic efficiency (Domberger, 1998; Hodge, 1998; Rimmer, 1998). In their review of ten studies, Domberger and Rimmer (1994, p. 449) noted that many of the studies used incomplete and narrow measures of service quality, and that the review provided consensus that performance contracting enhance quality.

The studies illustrate marked inconsistencies in approaches to measuring quality. Rimmer (1994, p. 83) notes that: There are no generally accepted measures of quality. Frequently used measures include surveys of users, changes in inputs, the range or number of outputs and performance indicators, such as a systematic assessment of user complaints. Similarly, the Industry Commission of Australia report (1996, p. 544) states: Information has been obtained from one or more of three sources ... the direct response of service consumers (the number of customer complaints as a proxy for service quality), independent observation and assessment (performance indicators), and information from contract managers.

The role that competition can play in increasing efficiency and effectiveness, and contracting has been widely adopted as a vehicle to achieve reform in the new public management (Williams, 1994). The OECD (1997) alleges that the use of contracting in government services is increasing, as the evidence is fairly clear that contracting out can lead to efficiency gains, while maintaining or increasing service quality levels. From the beginning onwards increasing the efficiency of public services has been high on the

agenda of the promoters of new public management. Cutting through red tape, minimizing public waste and value-for-money reporting have been important drivers for the introduction of performance measurement in the public sector.

Scholars have long realized that in order for employers to get desired contributions from their employees, they must provide appropriate inducements (Schein, 1965). Satisfied and well adjusted employees, work willingly towards organizational objectives and respond flexibly to organizational problems (Ostroff, 1992). However it has never been easy for employers to know what employees expect and which kinds of inducements will influence employees to make desired contributions consistently.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter outlines the research methodology that was used in the study. It focuses on the research design, data collection method and data analysis.

#### **3.2 Research Design**

This was case study design. A case study is an in-depth investigation of an individual, institution or phenomenon (Mugenda and Mugenda, 2003). The primary purpose of a case study is to determine factors and relationships among the factors that have resulted in the behaviour under study. Since this study sought to establish perceived effect of performance contract on performance of Kenya Agricultural Research Institute, a case study design is deemed the best design to fulfill the objectives of the study.

This research is on effect of performance contract on performance of Kenya Agricultural Research Institute. This design is most appropriate for a single unit of study because it is intended to offer a detailed in depth analysis that gave valuable insights to subject of the study.

#### **3.3 Data Collection**

In this study, emphasis was given to primary data. The primary data was collected using an interview guide. An interview guide is a set of questions that the interviewer asks when interviewing (Mugenda and Mugenda, 2003). It makes it possible to obtain data required to meet specific objectives of the study.

The interviewees were 10 which include; 1 deputy director, 2 assistance directors, 3 centre directors and 1 chief of division, 2 senior research and 1 principal administrative officer from Kenya Agricultural Research Institute.

### **3.4 Data Analysis**

The data was qualitative in nature. Therefore, content analysis was used in the analysis. Mugenda and Mugenda (2003) define content analysis as a technique for making inferences by systematically and objectively identifying specified characteristics of messages and using the same to relate trends.

## CHAPTER FOUR

### DATA ANALYSIS, RESULTS AND DISCUSSION

#### 4.1 Introduction

This chapter is dedicated to data analysis, research findings and interpretations. The main objective of the study was to establish the effect of performance contract on performance of Kenya Agricultural Research Institute. Data was collected using interview guides administered to top level management in Kenya Agricultural Research Institute who included the deputy director, 2 assistant directors, 3 centre directors and 1 chief of division, 2 senior research and 1 principal administrative officer from Kenya Agricultural Research Institute.

The Table 4.1 shows the number and designation of respondents in Kenya Agricultural Research Institute.

**Table 4.1 Designation of Respondents**

| <b>Designation</b>               | <b>Number</b> | <b>Department</b> |
|----------------------------------|---------------|-------------------|
| Deputy Director                  | 1             | Director          |
| Assistant Directors              | 2             | Director          |
| Centre Directors                 | 3             | Director          |
| Chief of Division                | 1             | Operations        |
| Senior Research officers         | 2             | R& D              |
| Principal Administrative Officer | 1             | Administration    |

Source: Researcher, (2014)

## 4.2 Employee Perceptions of performance contracting at Kenya Agricultural Research Institute

**Table 4.2: Employee Perception**

| <b>Description</b>  | <b>Frequency</b> | <b>Percentage</b> |
|---|------------------|-------------------|
| Employees perceive performance contracting to be highly useful  | 7                | 70                |
| Employees were not involved in strategic planning process, negotiating and setting targets, formulation of departmental work plans and consultation with the supervisor                 | 6                | 60                |
| Apart from the general feeling that some targets set by the institution given budgetary constraints are unattainable, all other aspects of the performance contracting process was okay | 4                | 40                |
| Employees' focus is about making sure goals, objectives, activities, deliverables, and measures are aligned and congruent.  | 8                | 80                |

Source: Researcher, (2014)

As shown in table 4.2, 70% of the interviewees indicated that employees perceive performance contracting to be highly useful to the Kenya Agricultural Research Institute. The employees associates performance contracting with greater project initiatives, increased efficiency, tapping creativity and innovation and reduction of customer complaints and that it has helped the institution to reduce losses. In addition, employees

perceives performance contracting as useful since it helps in handling of customer queries, enhancement of career growth and development, enhanced job satisfaction, reward and job security.

Out of 10 respondents, 60% of the interviewees indicated that employees were not involved in strategic planning process, negotiating and setting targets, formulation of departmental work plans and consultation with the supervisor. This is an indication that there was little employee involvement during the performance contracting process and therefore lack of ownership of the process on the part of the employees. For successful implementation of any process in an organization employees must be involved to win their support and commitment.

Further 40% of the interviewees indicated that apart from the general feeling that some targets set by the institution given budgetary constraints are unattainable, all other aspects of the performance contracting process was okay. These include: Employee involvement in setting targets, ease of understanding of performance metrics and reward and recognition. The performance contracting process encompasses all the stages from target setting through to evaluation of achievement of targets at the end of the time frame. Proper handling of this process is thus of prime importance.

Lastly, 80% of the interviewees indicated that employees' focus is about making sure goals, objectives, activities, deliverables, and measures are aligned and congruent. Once people know the goals, they should know what is expected of them and the direction the

organization is heading, they will require tools that help them perform the job. Finally, they should get a clue or signals to help them stay on course through feedback. Performance contracting is a summation of various bodies of knowledge applied together with an intention of improving organization performance.

#### 4.3 Performance Measurement used by Kenya Agricultural Research Institute

**Table 4.3: Performance Measurement**

| Description                    | Frequency | Percentage |
|--------------------------------|-----------|------------|
| Performance Appraisals         | 8         | 80         |
| Productivity Tests             | 6         | 60         |
| Measures of innovation         | 5         | 50         |
| Customer satisfaction measures | 9         | 90         |
| Creativity                     | 6         | 60         |

Source: Researcher, (2014)

As shown in table 4.3 80% of the interviewees indicated that performance appraisals were used to measure performance. An employee performance appraisal is one of the most comprehensive and common ways to measure how well the institutions work force is performing. Managers and supervisors at the Kenya Agricultural Research Institute utilize a plethora of performance appraisal methods and forms during an annual employee evaluation.

Further as indicated by 60% of the respondents productivity tests were used to measure performance: Kenya Agricultural Research Institute uses productivity tests to determine if the employees are meeting the expectations. Productivity tests are common in factories and production facilities where the work can be literally measured in quantifiable terms. The institutions quality assurance procedures help in measuring employee performance qualitatively.

Measures of innovation are also used commonly used in KARI as indicated by 50% of the respondents. Innovation might be considered to relate to improved practices, processes, equipment or products. These improvements in turn drive future productivity and profitability. Innovation can be measured using a subjective rating of the rate of product or market innovation, or by measuring change in the number of new or adapted products over a fixed period of time. Subjective measures are not likely to be comparable across organisations and will be open to bias.

Customer satisfaction measures are often used to assess business performance as indicated by 90% of the respondents this was mainly in the service sector where other outcomes are difficult to measure.

Creativity is another form of measure used by the Kenya agricultural research institute as indicated by 60% the interviewees. It forms the core activity of a growing section of the global economy capitalistically generating (generally non-tangible) wealth through the

creation and exploitation of intellectual property or through the provision of creative services and products. By encouraging creativity Kenya agricultural research institute is encouraging a departure from organisational existing norms and values, that is, they seek to depart from the targets set in performance contract or organisation’s strategic plan. Expectation of conformity runs contrary to the spirit of creativity.

#### **4.4 Perceived Factors Affecting Performance Contracting at Kenya Agricultural Research Institute**

**Table 4.4: Perceived Factors affecting performance contracting**

| <b>Description</b>               | <b>Frequency</b> | <b>Percentage</b> |
|----------------------------------|------------------|-------------------|
| Staff training and sensitization | 9                | 90                |
| Organization Culture             | 6                | 60                |
| Financial Resources              | 9                | 90                |
| Top Management commitment        | 8                | 80                |
| Employees turnover               | 4                | 40                |

Source: Researcher, (2014)

Respondents were asked to identify factors influencing performance contracting at Kenya agricultural research institute. Five factors were identified by the respondents as shown in the Table 4.4. From the table Staff training and sensitization and financial resources were identified by 90% of the respondents. Top Management commitment was another factor

identified by 80% of the respondents. Organization Culture was identified by 60% of the respondents while Employees turnover was found to Performance Contracting in Kenya Agricultural Research Institute at 40%.

These findings reflect the fact that the corporation has been performing exemplary well and this can be attributed to the fact that training of staff on how to implement the PC has been given a priority within other cycles of operational areas. This clearly shows the importance of staff sensitization on the implementation process of PC.

#### **4.5 Influence of Performance Contracting on individual staff performance at Kenya Agricultural Research Institute**

**Table 4.5: Influence of Performance Contracting on individual staff performance**

| <b>Perceived Influence of Performance Contracting</b>  | <b>Frequency</b> | <b>Percentage</b> |
|--|------------------|-------------------|
| Individuals can gain positive self regard, a feeling of competence and a sense of independence by solving work problems  | 7                | 70                |
| Performance contract has been viewed as an important instrument for the implementation of individual performance management used to set and improve targets between parties. | 6                | 60                |
| Performance contracting enhances job satisfaction of the employees with the hope that their satisfaction would lead to improved job performance                              | 9                | 90                |

Source: Researcher, (2014)

Respondents were asked to react to the question “how does performance contracting influence individual performance at Kenya agricultural research institute?.” The response were analyzed and findings are presented in table 4.5. As shown in the table, the respondents identified three different effects of performance contracting on individual employees. One of these is that performance contracting enhances job satisfaction of the employees as indicated by 90% of the respondents. Individuals can gain positive self-regard, a feeling of competence and a sense of independence by solving work problems was identified by 70% of the respondents while Performance contract has been viewed as an important instrument for the implementation of performance management used to set and improve targets between parties was identified by 60% of the respondents

With the introduction of performance based contract, employees indicated that work environment in their areas had improved as they were able to work towards given targets which if met on time had a reward and if not, sanctions. Staff performance under performance contract has been viewed as an important instrument for the implementation of performance management used to set and improve targets between parties.

#### **4.6 Perceived Relationship Between Performance Contracting and Performance of KARI**

The research objective was to establish perceived effect of performance contract on performance of KARI. To do this respondents were required to rate a series of statements linking performance contacting to KARI’s performance. The results are presented in the table 4.6 below.

**Table 4.6: Perceived relationship between performance contracting and performance of KARI**

| <b>Description</b>  | <b>Frequency</b> | <b>Percentage</b> |
|---|------------------|-------------------|
| performance contracting has greatly influenced efficiency at the Kenya Agricultural Research Institute  | 9                | 90                |
| Performance contracting was found to have greatly improved effectiveness of the workers   | 9                | 90                |
| Performance Contract has been acclaimed as an effective and promising means of improving performance of public enterprises as well as government departments                              | 6                | 60                |
| Performance contract can be effective as it provides a range of management instruments used to define responsibilities and expectations of parties on mutually agreed results             | 8                | 80                |
| Performance contract system makes the strategy of the department clear to all its operational units and, above all, outlines the resources to be made available for achieving the targets | 7                | 70                |

Source: Researcher, (2014)

As indicated in Table 4.6 performance contracting has greatly influenced efficiency at the Kenya Agricultural Research Institute and Performance contracting has greatly improved effectiveness of the workers were identified by 90% of the respondents. Performance contract can be effective as it provides a range of management instruments used to define responsibilities and expectations of parties on mutually agreed results was identified by 80% of the respondents. Performance contract system makes the strategy of the department clear to all its operational units and, above all, outlines the resources to be made available for achieving the targets was identified by 70% of the respondents while

Performance Contract has been acclaimed as an effective and promising means of improving performance of public enterprises as well as government departments was identified by 60% of the respondents

Performance contracting was perceived to have improved overall performance and service delivery in the Kenya Agricultural Research Institute, with most interviewees affirming to strongly agree, when asked on service delivery proxy questions.

Performance contracting was also perceived to have greatly improved effectiveness at the Kenya Agricultural Research Institute, as attested to by most respondents (90%) affirming to 'strongly agree', when asked on standards and performance targets as impacted upon by performance contracting as determinants of effectiveness. Improved effectiveness at the Kenya Agricultural Research Institute was also established, going by the affirmation of most of the respondents to 'strongly agree', when asked questions directed at determining whether monitoring and evaluation as part of performance contracting had in any way improved effectiveness of the institution.

#### **4.7 Performance Contracting as a Tool for Improving Efficiency and Effectiveness of Public Enterprises**

**Table 4.7: Use of Performance Contracting as a Tool for Improving Efficiency and Effectiveness of KARI**

| <b>Description</b>   | <b>Frequency</b> | <b>Percentage</b> |
|--|------------------|-------------------|
| Performance contracting is a useful tool for articulating clearer definitions of objectives and supporting innovative management, monitoring and control methods     | 7                | 70                |
| Performance contract acts as a Memorandum of Understanding (MOU), whereby MOU is rooted in an evaluation that helps in improvement of performance managements system | 6                | 60                |

Source: Researcher, (2014)

The respondents were asked to indicate how performance contracting was used to improve efficiency and effectiveness of public enterprises. The results were analyzed and presented in Table 4.7. The results show that Performance contracting is a useful tool for articulating clearer definitions of objectives and supporting innovative management, monitoring and control methods as identified by 70% of the respondents. Performance contract acts as a Memorandum of Understanding (MOU), whereby MOU is rooted in an evaluation that helps in improvement of performance managements system was identified by 60% of the respondents

#### **4.8 Discussion of the Findings**

The study established that employees perceived performance contracting as a highly useful tool for Kenya Agricultural Research Institute. Employees perceive performance contracting as useful since it helps in handling of customer queries, enhancement of career growth and development, enhanced job satisfaction, reward and job security. This is different from a study done by Mangales (2013) on the impact of employee perception of performance contracting on the performance contracting process as influenced by the employees' demographic characteristics in the Ministry of Local Government, which concluded that employees in the Ministry of Local Government have negative perception of the performance contracting process. However Bennet (1999) considers perception as a process in which one interprets sensory inputs such as sight, sound, smell or feelings. Two people may physically see the same thing but they may have their own individual interpretation of what it is. Perception is closely linked with the individual and the human factor. The human factor in organization has been a subject of debate for some time now. Its origin can be traced back to the early works of Elton Mayo.

According to Brown (1996) performance contracting improves organizational performance in general and is dependent on a number of factors such as management styles, leadership, effective strategic plans and political/legal environment. These factors are critical in ensuring the performance contracting is implemented thus giving positive results or outputs. This study found that factors that influence the Performance Contracting in Kenya Agricultural Research Institute are highly included in relation to Staff training and sensitization, Organization Culture, Financial Resources, Top

Management commitment, and Employees turnover. Performance contract can be effective as it provides a range of management instruments used to define responsibilities and expectations of parties on mutually agreed results was identified by 80% of the respondents

The findings indicates that employees associates performance contracting with greater project initiatives, increased efficiency, tapping creativity and innovation and reduction of customer complaints and that it has helped the institution to reduce losses. This is an indication that there was little employee involvement during the performance contracting process and therefore lack of ownership of the process on the part of the employees. For successful implementation of any process in an organization employees must be involved to win their support and commitment. This is supported by Shirley and Xu (1997) who argues that performance contracting assumes that government's objectives can be maximized and performance improved by setting targets that take into account the constraints placed on managers.

An employee performance appraisal is one of the most comprehensive and common ways to measure how well the institutions work force is performing. Managers and supervisors Kenya Agricultural Research Institute utilize a plethora of performance appraisal methods and forms during an annual employee evaluation. These improvements in turn drive future productivity and profitability. This is supported by Patching (1999) in employee's performance appraisal is very much dependent on the perceptual process. An

employee's future is closely tied to appraisal, promotions, pay raises and continuation of employment is among the most obvious outcomes.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presents summary, conclusion and recommendations from the study findings. The main objective of the study was achieved through establishing the effect of performance contract on performance of Kenya Agricultural Research Institute.

#### **5.2 Summary**

Performance contract constitutes a range of management instruments used to define responsibilities and expectations between parties to achieve mutually agreed results. It is a useful tool for articulating clearer definitions of objectives and supporting innovative management, monitoring and control methods and at the same time imparting managerial and operational autonomy to public service managers. It is therefore a management tool for ensuring accountability for results by public officials, because it measures the extent to which they achieve targeted results

Further the Governments are increasingly faced with the challenge to do things but with fewer resources and above all, differently performance contracts includes a range of management instruments used to define responsibilities and expectations between parties to achieve mutually agreed results. Performance contracting provides a framework for generating desired behaviour in the contest of devolved management structures. Employers 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.

Performance contracting was found to have improved overall performance and service delivery in the Kenya Agricultural Research Institute, with most respondents affirming to 'strongly agree', when asked on service delivery proxy questions. From the findings, performance contracting has also greatly influenced efficiency at the Kenya Agriculture Research Institute, with most respondents affirming to 'strongly agree', when asked on the impacts its adoption has had on efficiency related proxy questions. Performance contracting was also found to have greatly improved effectiveness at the Kenya Agriculture Research Institute, as attested to by most respondents affirming to 'strongly agree', when asked on standards and performance targets as impacted upon by performance contracting as determinants of effectiveness. Improved effectiveness at the Kenya Agriculture Research Institute was also established, going by the affirmation of most of the respondents to 'strongly agree', when asked questions directed at determining whether monitoring and evaluation had in any way improved effectiveness in the institution with the advent of performance contracting.

It was found that customer satisfaction measures are often used to assess business performance at the institute. Customer satisfaction measures may be most appropriate for particular types of training, and training with the aim of changing customer service levels. It also found that creativity is used as a form of measure at the Kenya agricultural research institute as indicated by the interviewees.

Following the performances of Kenya Agricultural Research Institute for the previous cycles of performance contracting, the corporation has been performing exceptionally well and this can be attributed to the fact that training of staff on how to implement the performance contract has been given a priority within other cycles of operational areas. This clearly shows the importance of staff sensitization on the implementation process of performance contract. The interviewees indicated that Formulation of good policies and strategies without serious commitment and a clear path of implementation is not enough. For effective policies and strategies implementation, serious commitment from the top management must be supported by decisions regarding the staff sensitization, organizational culture, financial resources, top management commitment, and employees turnover. All these factors will affect the implementation process of performance contracting if not properly managed.

### **5.3 Conclusion**

The study concludes that performance contracting improves organization performance. The study also concludes from the findings that performance contracting indeed increases service delivery in institutions, as overwhelmingly attested to by the findings, and greatly so, going by the respondents' high levels of agreement.

It is also the study's conclusion that performance contracting indeed increases overall efficiency in institutions, as overwhelmingly attested to by the findings, and to a great extent at that, going by the high levels of agreement from the respondents.

It also goes that performance contracting indeed greatly influences institutions' standards and performance targets, an important proxy in determining organizations' effectiveness, as overwhelmingly attested to by the findings, going by the high levels of agreement from respondents across the departments.

#### **5.4 Recommendations of the Study**

The study recommends that performance contracting at the corporation should be set in a way it will improve the level of performance in the organization. Inter-administrative comparison circles at the local administrative level need to be introduced in order to increase efficiency at the Kenya agricultural research institute.

To improve service delivery in Kenya agricultural research institute, there is need to ensure that top-level managers are accountable for results, and in turn hold those below them accountable. A reversal of the decline in efficiency and ensuring that resources are focused on attainment of the key national policy priorities of the Government

#### **5.5 Limitation of the Study**

Information relating to performance contracts is always treated with sensitivity. This caused difficulties in convincing the respondents of the importance of giving sincere answers to the asked questions evidenced through reluctance to accept invitation in the study. To counter the challenge, the researcher informed the respondents in advance that the purpose of the study was for academic purpose only and not for other investigations.

Data collected was qualitative in nature and therefore the researcher was required to analyze this data using content analysis on effect of performance contract on performance of Kenya Agricultural Research Institution. The method is subjective and involves a lot of decision making which can lead to different conclusions by different researchers while analyzing same research data.

### **5.6 Suggestion for Further Research**

There is a need to establish if customers perceive service delivery improvements since the inception of performance contract in other ministries and institutions. Results of such a study would confirm if the objectives of implementing performance contract are being achieved and if so to what extent.

There is need for an investigation of the extent to which State Corporations and the Ministries are in implementing the performance contract. The differences in the successes or failure in State corporation and Ministries would be an interesting area to explore to gain insights into factors that enhance or inhibit the implementation of performance contract in the public service.

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## APPENDICES

### Appendix 1: Interview Guide

1. What is your designation?
2. What is your department?
3. What is the perception of employees toward performance contracting at Kenya Agricultural Research Institute?
4. To establish the level of measurement used by Kenya Agricultural Research Institute in contract performance?
5. What are the factors affecting performance contracting at Kenya Agricultural Research Institute?
6. How does performance contracting influences individual staff performance at Kenya Agricultural Research Institute?
7. To what extent does performance contracting contribute to enhancing the performance of Kenya Agricultural Research Institute?
8. How is performance contracting used as a tool for improving efficiency and effectiveness of public enterprises?