

**IMPLEMENTATION CHALLENGES OF PERFORMANCE  
CONTRACTING IN THE MINISTRY OF STATE FOR  
PUBLIC SERVICE - KENYA**

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## DECLARATION

This research project is my original work and has not been presented to any other university for the award of degree or diploma certificate

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## **DEDICATION**

To my adorable uncle, Diida, who has always been a great source of joy and invariable inspiration in my pedagogical endeavours

## **ABBREVIATIONS AND ACRONYMS**

<b>CAB</b>	Cabinet
<b>CIPD</b>	Chartered Institute of Personnel and Development
<b>CSRP</b>	Civil Service Reform Programme
<b>DPM</b>	Directorate of Personnel Management
<b>ERS</b>	Economic Recovery Strategy
<b>GoK</b>	Government of Kenya
<b>HR</b>	Human Resources
<b>HRD</b>	Human Resource Development
<b>KANU</b>	Kenya African National Union
<b>KIA</b>	Kenya Institute of Administration
<b>KLDC</b>	Kenya Learning Development Center
<b>MBA</b>	Master of Business Administration
<b>MCS</b>	Management Consultancy Services
<b>MPND</b>	Ministry of Planning and National Development
<b>MSPS</b>	Ministry of State for Public Service
<b>N.D.</b>	Not Dated
<b>NARC</b>	National Rainbow Coalition
<b>NPM</b>	New Public Management
<b>OECD</b>	Organization for Economic Co-Operation and Development
<b>OPM</b>	Office of the Prime Minister
<b>PC</b>	Performance Contracting

## **ABSTRACT**

The main critical phase of strategic management process is converting strategic thought in to strategic action. Once strategies have been designed, they need to be implemented and hence without proper execution, an organization will not achieve the intended fit. The research was a case study that focused on challenges faced in implementation of Performance Contracting (PC) within the Ministry of State for Public Service. The data collection instrument was an interview guide. Content analysis was used to analyze the qualitative primary data which had been collected by conducting interviews and secondary information from the ministry's library. The findings obtained indicate that MSPS faces both operational and institutional challenges in undertaking performance contracting. The challenges mainly ranged from the organizational structure, leadership and management styles, rigid organizational culture and lack of effective performance management. It was also noted that the organizational structure should be restructured to facilitate quick decision making and subsequent faster response than is currently experienced. The respondents furthermore observed that some headship have not been enthusiastic enough in implementing the PC and coming up with strategies to counter the challenges that face the ministry. The vital contribution of a strategic leader is to sufficiently influence and share a clear vision, mission and direction for the ministry. The study recommends that in implementing PC as a strategic tool, MSPS should ensure participation of staff and stakeholders at all levels. There is need for communication strategy to broaden the thinking and appreciation of performance contracting so that results are achieved as expected. It is also recommended that monitoring and evaluation be on continuous basis whereby the envisaged quarterly performance reports are

constantly adhered to and necessary action promptly taken. Similar to appraisal, it is deemed critical for all staff members to sign contract to the respective head in order to account for targets individually and corporately. Thus, signing of contract is more fulfilling if cascaded to all levels so that targets are seamlessly achieved. An integrated Performance Appraisal System that is comprehensible to all staff would consequently ensure that PC implementation succeeds hence the need to tie individual assessment to the contract.

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# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the study

Organizations survive in an ever-changing environment. Therefore, there is continuous change as a result of events which affect the status quo such as process improvements, the introduction of new technology, new legal dispensation, organizational restructuring, and customer satisfaction as well as service delivery. The greatest challenge for organizations implementing such transformation is to achieve the cultural, institutional or behavioural change which would mean creative planning, skilful communication, and organized implementation as well as developing a rational change strategy that will drive, achieve and sustain real change. Hence, change will only take place if an idea has direction, leadership, very clear goals and definite benefits for its key stakeholders.

Around the globe, “governments have been known to be associated with long bureaucratic procedures marred with inefficiency, lack of accountability thus high level of corruption and wastage of resources which translate into poor economic performance” (Ochien’g, 2010 p.3). Governments have however been trying to put in place measures to invalidate this impression and the attitude towards governments in service delivery that comes along with it. Consequently, Kenya’s Public Sector being one of the countries that has suffered “damaged image” both locally and internationally, resorted to reforms in the public sector to gain the confidence of the public and redeem this “awful image”. In the light of this, the famous performance contracting has proposed major reforms within the government setting in striving to make services efficient, effective, accessible and somewhat affordable. Consequently, the element of efficient service will inevitably

matter with staffing, technology, processes and resource distribution as it endeavours to realize the set targets. This research therefore focuses on Performance Contracting in the Ministry of State for Public Service Context, its experience in the public sector and the challenges faced in its implementation.

### **1.1.1 Strategic Performance Management**

It is evident that performance management has acquired a central place in the link between the activities that individuals carry out on day-to-day and progress towards achieving strategic organizational goals (CIPD, 2009, 6). Briscoe and Claus (2008, as cited in CIPD, 2009) argue that ‘Performance management is the system through which organizations set work goals, determine performance standards, assign and evaluate work, provide performance feedback, determine training and development needs and distribute rewards.’(3).

Performance management is an ongoing, systematic approach to improving results through evidence-based decision making, continuous organizational learning, and a focus on accountability for performance (Mucha, 2009).

Performance management uses evidence from measurement to support governmental planning, funding, and operations. Better information enables managers to understand stakeholder concerns, recognize success, identify problem areas, and respond with appropriate actions — to learn from experience and apply that knowledge to better serve the public. Performance management includes the concerted actions an organization takes to apply objective information to management and policy making in order to improve results. In addition, performance management also includes activities that ensure goals

are consistently being met in an effective and efficient manner. Performance management can focus on the performance of an organization, a department, employee, or even the processes to build a product or service, as well as many other areas. Managing employee or system performance facilitates the effective delivery of strategic and operational goals. Hence, Thoesen & Arsberger (2006) observe that employees work towards advancing the organization through individual efforts that complement the Strategic Plan and improve organizational effectiveness.

### **1.1.2 Concept of Performance Contracting**

According to the Commonwealth Secretariat (1994), Performance Contract System had a genesis in France in the late 1960s. It was later developed with great deal of elaboration in Pakistan and Korea and thereafter introduced to India (OECD, 1997). It has been adopted in developing countries in Africa, including Nigeria, Gambia, and now Kenya.

In Kenya, the concept of performance contracting can be traced to 1990 when Government, through Cabinet Memorandum No. CAB 990/35 of 3<sup>rd</sup> May 1990 approved the introduction of performance contracts in the management of public agencies. This spirit was reiterated vide the Cabinet Memo No. CAB (03) 115 of 15<sup>th</sup> January 2004 that directed all accounting/authorized officers to embrace and institutionalize this result based approach.

Taking cognizance of the fundamental issues arising from past public sector performance that need to be addressed, the Government of Kenya responded to public service delivery challenges by formulating and implementing Public Sector Reforms (PSR) way back in 1993. The reform implementation was in three phases, namely: cost containment, which entailed staff rightsizing initiatives; rationalization of government functions and

structures to determine appropriate structures and optimal size of the civil service for effective performance of the government's core functions within budgetary limits; and ultimately reform initiatives targeting performance improvement and management in the public service was instituted as guided by Economic Recovery policy direction (MPND, 2003). This third phase gave rise to the use of performance contracting as a strategic tool to achieve performance improvement.

Lane (as cited in Eliassen & Kooimann, 1987, 47) 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. On the other hand, the BusinessDictionary.com defines performance as the accomplishment of a given task measured against preset known standards of accuracy, completeness, cost, and speed. In a contract, performance is deemed to be the fulfillment of an obligation, in a manner that releases the performer from all liabilities under the contract. Performance is therefore the results of activities of an organization or investment over a given period of time. Performance contracting (PC) as part of strategic management is, therefore, an agreement between employees and employer on performance goals, an agreement between a manager and an employee about the employee's responsibilities and behavior during a review period (OECD, 1997). Performance Contracting is therefore a policy strategy that seeks to effectively deliver quality services within the public realm (Kobia & Mohamed, 2006).

Performance is often defined simply in output terms – the achievement of quantified objectives. But performance is a matter not only of what people achieve but how they achieve it (Armstrong, 2006: 499/8). According to Obong'o (2009), the Kenyan

government has embraced performance contracting not only to improve service delivery, but also to refocus the mind set of public service away from a culture of inward looking towards a culture of business as focused on customer and results. Accordingly, Trivedi (2010) observes that PC is nowadays viewed as a key pillar of what has come to be regarded as the field of New Public Management (NPM). In quest of the aim of performance improvement within the public sector, NPM put emphasis on the adoption of private sector practices in public institutions hence the application of performance contracting.

### **1.1.3 Challenges facing the Implementation of PC**

Although there has been considerable research in to the success and failure of planning systems, Hussey (1998) argues that much less attention has been given to the implementation of strategy (p.522). As a result, the assumption that a strategy is wrong leads to the change of a perfectly appropriate strategy, which is hardly the way to effective strategic management.

Lienert (2003, as cited in Kobia & Mohamed, 2006) observes that public services in many African countries are confronted with many challenges, which constrain their delivery capacities. They include the human resource factor, relating to shortages of the manpower in terms of numbers and key competencies, lack of appropriate mindsets, and socio-psychological dispositions. There is also the persistent problem of the shortage of financial and material logistics that are necessary to support effective service delivery. On the other hand, the gradual erosion of the ethics and accountability has continued to



bedevil the public sector in delivering public services to the people effectively. Public sector reforms meant to address these challenges have achieved minimal results.

The strategy for performance improvement has the potential to bring about a major change in the way public services are delivered. Therefore, Jones & Hill (1997) (as cited in Murgor, 2008) argues that implementation of a strategy is a way in which a company creates the organizational arrangement that allows it to pursue its strategy most effectively (p.5). Accordingly, DPM (2002) observes that “the challenge facing the public service and the civil service in particular is the effective introduction and successful implementation of the approved strategy for performance improvement” (45).

While performance contracting is generally deemed to have led to a competitive Public Service as compared to the old fashioned style and also enhanced their growth and development, Ochien’g (2010) holds that there are numerous challenges in its implementation. Among these challenges are lack of adequate skilled personnel in Performance Contracting in most of the institutions, lack of good-will by some Institutions where the heads have not appreciated the process, rejection by some institutions sufficed by refusal to be part of the process though this has been changing with time, the long bureaucratic procedures of public institutions that makes it hard for them to realize some targets especially the institutions in the lower-stream as they may have to wait long to receive funds from the headquarters (mother- institutions). This tendency may delay the execution of activities within the stipulated time.

In the report on Review of Performance Contracting in the Public Sector (Panel of Experts, 2010) it was noted that if not for some challenges, PC serves right in optimum

service delivery. Accordingly, the report highlighted the following challenges experienced during implementation of PCs: inadequate resources, lack of adherence to contract calendar, initial resistance, need for political ownership and support at the highest political or bureaucratic levels, capacity to cascade to all levels, transfer or removal of staff in middle of contract, mergers or split of ministries, legal obstacles, severe competition resulting in low targeting, fluctuations in committed funding, lack of standard sector benchmarks, poor grasp of strategic management process, changing composition of targets negotiating teams, poor linkage between planning, budgeting and target setting, lack of comprehensive incentive or sanctions system, and incomplete integration.

Organizational Culture refers to collective behaviours or styles of people, their attitude towards various constituents of business such as customers, co-workers, shareholders and the common values that they share among themselves, which in fact acts like a binding force between them. Therefore, culture of an organization is indeed a major factor that determines whether the enterprise flourishes on continuing basis or withers and eventually dies (Cook, 1998, 125).

Culture and performance are intricately interwoven and yet the relationship is so complicated and not so obvious for executives to decisively act on this important aspect of business. This correlation pose mutually reciprocating relationship and therefore effective performance management must become an integral part of the organization's culture (Srinivas, 2009). If strong culture helps building high performance company, the past performance and successes shape influence people behaviours which gradually become part of the culture. Many research projects trying to find the secret behind some

companies' superior performance over a period of time when compared to not-so-successful contemporary companies operating in the same industry segments have emphasized the softer aspects of business such as values, beliefs and management philosophy as the underlying difference among them. Consequently, change, according to Dutta & Manzoni (1999) "requires a permanent cultural shift so that business can achieve continuous improvement" (p.326).

Culture enables people to see the goal alignment and motivates them to higher levels of performance, as shared values make people feel good about the organization and commit their capability and potential sincerely for the company.

Good cultures are characterized by norms and values supportive of excellence, teamwork, profitability, honesty, a customer service orientation, pride in one's work, and commitment to the organization. Most of all, they are supportive of adaptability – the capacity to thrive over the long run despite new competition, new regulations, new technological developments, and the strains of growth.  
(Baker, 1980: 10)

Organizational structure is viewed as consisting of two main dimensions: work division which distributes tasks and activities, and coordination mechanisms which includes standardization and formalization (Meijaard et al, 2002). As a matter of contingency, environment, technology, size, strategy, and owner or manager objectives pose a bearing on structure and performance of organizations. Hence the configuration of an organization is key to the coordination of performance contracting as it is cascaded from the highest point.

According to Kahn (1978) (as cited in Steers et al, 1996), leadership occurs when one individual influences others to perform voluntarily above the minimum requirements of their work roles. Organizational leadership includes accountability for setting direction and winning the collaborative support of all employees collectively to work effectively (Jacues & Clement, 1997). Good leadership evokes the warm and gratifying prospect of being part of successful team, or organization, or nation. The effectiveness of the leaders depends on how appropriate their leadership style is to the situation in which they operate (Cole, 1996). Strategic leadership hence becomes indispensable for implementation of a strategy.

Many organizations still employ a performance management system that does not assist staff perform at advanced levels because the process is more focused on judgment and evaluation than on coaching, supporting and helping people to achieve. However, the government of Kenya had embraced the processes of goal or target setting, performance appraisal or review, and reward or sanction.

### **1.1.3 Strategic Management**

Strategic management encompasses the processes of performance planning, performance target setting, and performance appraisal, in order to achieve organizational and individual targets (DPM, 2002). Strategic management approaches promotes sustenance of high service delivery standards in work environments that is characterized by ever changing needs, priorities and preferences of service users. In this regard, a structured approach to shifting or transitioning individuals, teams, and organizations from a current state to a desired future state is indispensable. Hence change management is inevitable as

an organizational process aimed at empowering employees to accept and embrace changes in their current business environment. In view of the above and for reasons of result the government came up with an Economic Recovery Strategy (ERS).

In the Economic Recovery Strategy for Wealth and Employment Creation (ERS) 2003-2007 policy document, the government accords high priority to economic recovery and improving the performance of public service to deliver results to the people. Up to this point, the goal of public sector reform was the restoration so as to equip it well in order to play a pivotal role in national development. This called for fundamental changes in the way the sector operates in institutional organization and relationships, and in the individual and collective behavior of those serving in the sector. The aim is to enhance efficiency and effectiveness together with probity and integrity. In effort to achieve the objectives and targets of ERS and to manage performance challenges in public service, the Government adopted Performance Contracting (PC) in public service as a strategy for improving service delivery to Kenyans. The Performance Contract is one element of the broader public sector reforms aimed at improving efficiency and effectiveness, while reducing total costs.

According to the MSPS Strategic Plan 2008 – 2012, the implementation of the Strategic Plan requires Divisions and Units in the Ministry to prepare work plans detailing all strategic activities. To ensure effective implementation of the Strategic Plan, the Ministry planned to institute an effective monitoring and evaluation system to track progress and to evaluate impact on service delivery. The work plans and annual performance reports of the Ministry would then set the basis for continuous evaluation of the implementation process.

However, Steiner (1983) speculates that many of the strategic planning systems failed to link planning and resource allocation and did not place importance on strategy implementation. He further observes that the existing systems failed to reward managers and employees for strategic thinking, creativity and innovation. This led to disenchantment with strategic planning and thus compelling managers to believe that it was of little or no value to the organization. These problems notwithstanding, practitioners and academics like Porter (1983) came in support of strategic planning by putting more emphasis on strategy implementation. This view indicates that performance contract is in itself not useful if no effort is taken to realize it by according necessary implementation support.

#### **1.1.4 Public Service in Kenya**

The Public service and in particular the civil service plays an indispensable role in the effective delivery of public services that are key to the functioning of a state economy (Kobia & Mohamed, 2006). The Civil Service is the policy implementation arm of the Government. Public Service is composed of ministries, local authorities, state corporations and standing commissions. The rationale of creating ministries such as MSPS is to enhance their specialization in aspects of national development.

The Civil Service is made up of civil servants. Each officer occupies a defined post with salary, well defined duties, rights and privileges. The service operates in accordance with the Civil Service Rules and Regulations emanating from labour laws and Service Act. The Public Service Commission of Kenya is the human resource management agency charged with maintenance of, among others, the Civil Service System.

At the dawn of independence in 1963, Kobia and Mohamed (2006) observe that the Kenya Civil Service had about 63,400 employees. Due to the demand for public service the Civil Service grew at an average rate of 17% and reached 272,000 employees in 1993 and 657,400 in 2004. The growth in size of the civil service and inappropriate staffing practices resulted in bloated work force, unmanageable wage bill, a decline in efficiency and effectiveness of service delivery.

In 1993, the Kenya Government formally initiated the Civil Service Reform Programme (CSRP). The CSRP was envisaged for implementation in three phases; the first phase 1993 – 1998, focused on cost containment, the second phase 1998 – 2001, focused on performance improvement and the last phase focused on retirement, consolidation and sustenance of reform gains. The main focus of the three phases of reform was to build a public service that is capable of meeting the challenges of improving service delivery to Kenyans (Obongo, 2009).

The foremost objective of CSRP was improving productivity of the civil service and cut cost. In 2002, the National Rainbow Coalition (NARC) came into power and took control of Government from the 24 year rule of the Kenya Africa National Union (KANU). The NARC Government launched and embraced the Economic Recovery Strategy for Wealth Creation (ERS) in 2004 focusing on effective and efficient public sector performance and service delivery (GOK – ERS, 2004).

The performance evaluation exercise is done ex-ante. Thus, performance evaluation by the ad-hoc evaluation committee is based on a comparison of achievements against the targets agreed at the signing of the contract. The negotiation of targets to be included in

the contracts is conducted by the ad-hoc negotiation committee. The final contract is however, between the government and the ministry. As a periodic exercise, an evaluation result was announced ranking all the permanent Secretaries and chief executives of government agencies in Kenya according to their performance for the contract year 2009/10; perpetuating the public declaration of results under performance contracts.

### **1.1.5 Ministry of State for Public Service**

The Ministry of State for Public Service (MSPS) evolved from a directorate of personnel management and has its origin in the Establishments Division, which was created in 1947 in the then Office of the Chief Secretary (MSPS, 2011). It was later established as directorate in the office of the prime minister vide circular No.1 of 2<sup>nd</sup> April 1963 (DPM: strategic plan 2003-2008). The Ministry was created for a critical role in the administration of the Civil Service and is currently under the Office of the Prime Minister. It deals with and handles all matters related to manpower requirements, management improvement, staff development, personnel administration and training programmes for all Ministries and Departments. The mandate of MSPS was spelt out vide Circular on Organization of Government of May 2008 directing the Ministry to provide strategic leadership and guidance to the Public service on matters of human resource management and development.

The Ministry is headed by a Minister, an Assistant Minister and a Permanent Secretary. It has an establishment of six hundred and eighty seven employees (DPM: June, 2010). The Ministry discharges its functions through five departments namely; the Human Resource Management, Human Resource Policy, Human Resource Development, Management



Consultancy Services and the Finance and Administration. The Ministry also extends its services through: Government Training Institutes of Matuga, Embu, Baringo and Mombasa besides overseeing other state corporations that includes Kenya Institute of Administration (KIA) and the Kenya Learning Development Centre (KLDC).

Before independence, the Division carried out what was then considered as personnel work that involved recruitment, postings, promotions, salaries, advances, leave, disciplines, passages, etc. These services and requirements were framed to suit the then Colonial Civil Service. At the time, the emphasis was laid on directives received from the Colonial Office to ensure consistency and equity in the application of rules to individual officers.

The dawn of independence brought a new thrust to the personnel management function in Government which led to the localization of the Civil Service and the establishment of the Service and Training Branch. This brought about the introduction of training programmes that were meant to prepare Kenyan citizens for the upper and middle level posts in the Civil Service at that time. Massive training programmes for common cadre personnel, i.e. administrative, accounts, executive, clerical, secretarial personnel were mounted to enable officers acquire necessary skills.

## **1.2 Research Problem**

Policy changes generally imply reforms, paradigm shift and a change of some sort. Consequently, public policy programmes are usually formulated to address some objectives within the government. It is the responsibility of public employees to embrace and implement these programmes. The success of the projects which are being

established depends, to a large extent, on both the planning and subsequent implementation. For effective strategic implementation and change management, there must be appropriate decisions regarding structure, culture, reward, human resources, funds, leadership and positive attitude by undertakers and the intended beneficiaries.

Ministry of State for Public Service is a service organization dealing with the entire public service in matters of human resource management and development policies, rules, regulations and set standards for the Public Service that will ensure a highly motivated workforce for sustainable performance improvement and heightened service delivery. Similar to other Ministries, MSPS implements and monitors the performance contracting in relation to its strategic plan. Going by the organizational and individual performance it is apparent there are both institutional and operational challenges limiting the optimum delivery of targets.

The introduction of performance contracting has since provided numerous insights into the performance of individual ministries and public agencies. Evaluation results indicates that the level and quality of service delivered varies depending on ministries and departments (GOK, 2009). The underlying reasons for these variations is not certain given that all ministries are funded through the exchequer yet public servants are expected to attain a mutually set targets as agreed in their respective Performance Contracts. Scholars such as Ortiz (2004), Trivedi (2009) and Obongo' (2004) argue that leadership, political good will, perception and acceptability and ownership of the change programmes directly determine its success or failure.

Ortiz, Gorita and Vislykh (2004) mainly focused on managing performance for results and designing contractual arrangements to support Results Based Management (RBM). The study concluded that the main prerequisite for an effective performance management system is a change in the culture of organizations concerned. Trivedi (2010), in his analysis on performance contracts in Kenya, noted that target setting was mechanically done and devoid of flexibility thus contributing to the failure of attainment of goals set in PCs. Choke (2006) looked at the perceived link between strategic planning and performance contracting in state corporations and noted that the relatively better performance is a question of involving everyone in goal setting. Kiboi (2006) researched on the perception of management on performance contracting in state corporations and discovered that PCs enable organization to enhance strategic direction, meet their performance targets and strategically respond to their competitive environment.

Kirathe (2008) also studied the impact of PC on performance of companies in the energy sector and found out that in respect to financial performance, PC- as a strategy - has encouraged proper utilization of resources and has encouraged participation in decision making process of organizations. In his recommendation, Kirathe nevertheless provoked a research on challenges in the implementation of PC. With the thrust in this recommendation and the gap on this aspect, this research will undertake to determine the challenges facing the implementation of performance contracting and thus the question: what are the challenges encountered in implementation of Performance Contracting in the Ministry of State for Public Service?

### **1.3 Objective of the study**

The research objective will be to determine the challenges faced in implementation of performance contracting within the Ministry of State for Public Service - Kenya.

### **1.4 Value of the study**

The research findings will contribute to the theory on performance contracting in the dimension of its challenges. It therefore adds to the body of knowledge in the implementation of performance contracts in the light of strategic change management. The research will also evoke the researchers' quest particularly those who are interested in studying on the subject matter further.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter explores the critical points of current knowledge including substantive findings as well as theoretical and methodological contributions with respect to performance contracting concept as well as implementation of strategies. The review is basically on the secondary sources.

### **2.2 Performance Management**

Performance management is a philosophy and continuous to which manager and employees need to devote attention all year round (Towers, 1992). It encompasses performance and how it is to be improved by engaging in regular dialogue (Bacal, 1999, 4), rather than just focusing on issues periodically as is the case of performance appraisals. According to Connock (1991) (as cited in Towers, 1992, 219) performance management put emphasis on setting key accountabilities, agreeing future objectives, the measure and standards to be attained and assigning time-scales and priorities. Performance management is therefore a systematic process by which an agency involves its employees, as individuals and members of a group, in improving organizational effectiveness in the accomplishment of agency mission and goals. Effective organization conduct employee performance management by way of planning work and setting expectations, continually monitoring performance, developing the capacity to perform, periodically rating performance in a summary style, and rewarding good performance. Effectiveness is deemed to accrue from involvement at all levels so as to espouse the needed energy and focus.

On the other hand, performance management applies to teams and organizations, as well. Organizational performance involves the routine activities to establish organizational goals, monitor progress toward the goals, and make adjustments to achieve those goals more effectively and efficiently (McNamara, N.d). Thus performance management is a key tool in the process of making clear to staff what their jobs are and how the jobs link up to the company values, principles and policies (Bacal, 1999, 166).

While the aim is to cope with the environmental challenges and to achieve success for the Ministry, performance contract and appraisals are critical in order to accomplish defined targets. As a result, Child (1972) and Weick (1997) (in Miles and Snow, 2003, 5) argue for strategic choice and environmental enactment respectively in which organizations do not respond to preordained environmental conditions but instead create their own environment through a series of choices regarding markets, products, technologies and desired scale of operations.

### **2.3 Performance Contracting**

Performance contracting is progressively gaining credence within the public service having been applied successfully in the private sector from the early 1980s. The concept attracts several definitions. According to Organization for Economic Co-operation and Development (OECD, 1999), performance contract is seen as a range of management instruments used to define responsibility and expectations between parties to achieve mutually agreed results. The envisaged results in this definition have led to various dispositions with argument where Performance Contracting involves considerable variety of uses and forms for quasi contracting agreements between parties.

The Government of Kenya guide on performance contracting defines it as a management tool for measuring performance against negotiated performance targets. It further states that a performance contract is a freely negotiated performance agreement between the government, acting as the owner of the agency, and the management of the agency. In essence, performance contracting establishes general goals for the agency, sets targets for measuring performance and provides incentives for achieving these targets. They include a variety of incentive-based mechanisms for controlling public agencies—(involving controlling the outcome rather than the process) (GoK, 2005).

The Performance Contract specifies the mutual performance obligations, intentions and responsibilities between the two parties. The relationship in the negotiation of the contract is therefore termed as an exchange involving reciprocity where each party has a unique obligation to fulfill. The aim here is to deliver quality public service within a specified time frame. There are inherent obligations on each contractual party other than the aforementioned and it is on the attainment of these obligations that performance would be met. Public sector performance is measured by looking at whether the signed contract is able to deliver efficient and effective project implementation, be timely, offer quality services, check the relevance of projects being implemented, be cost effective and use allocated funds effectively. The projects must satisfy the end consumer while those implementing it must derive satisfaction from what they are doing.

The poor performance of the public sector has hindered the realization of sustainable economic growth (GOK, 2005). Against this backdrop, PC was deemed significant and has been introduced to help in fast-tracking; Institutions Strategic Plan, the aligned Sector Plan, Kenya's Medium-Term Plan 2008- 2012 and the Kenya's Vision 2030. For

achievement of the set targets, the institutions have to develop intense monitoring and evaluation system hence ensuring proper coordination of projects. PC has also instilled discipline to Public Institution' Management by ensuring adherence to work-plans, Strategic Plans, Sector Plans and the Vision 2030. There is enhanced accountability in the public service as it defines who does what, when and how. It has led to enhancement of the efficiency in service delivery as the Institutions set higher targets every contract period. It gives room for recognition of the Public Servants hence improves the performance. Some Public Institutions have realized that working to achieve the set targets does not only help them perform better but also aid in the institutions' operations.

#### **2.4 Performance Contracting Implementation process**

Performance Contracting is a new strategy embraced in public dispensation and implementing PC successfully is indeed vital for any ministry or department. Without effective implementation, even the most superior strategy is of no use (Alexander, 1991). The concept of strategy implementation is apparently straight forward: the strategy is formulated and then it is implemented. Implementing would be merely taken as allocating resources and changing organizational structure. However, transforming strategies into action is a far more intricate and difficult task. Implementation stage is commonly referred to as action phase of the strategic management process (Pearce & Robinson, 2007). While other stages of formulation, analysis and choice of strategy are significant, these phases alone cannot guarantee success. A strategy must be translated into action, and that action must be cautiously implemented.



At the dawn of independence in 1963, the Kenya government engaged in the implementation of programmes that were largely drawn from policy promulgation captured in Sessional Paper no. 10 of 1963 on *Africa Socialism and its Application to Planning in Kenya*, (GOK, 1963). Most of these policies geared towards poverty alleviation, economic growth, and increase social welfare standards of the people. After the lapse of each planned period majority of projects did not attain the set target in terms of quality and completion rate (Ngau, 1987).

In 2006, the Government reintroduced PCs with a different tempo in all ministries, all state corporations and all local Authorities. Extension of Performance Contracts to local authorities has ensured inclusion of grass root level communities in ensuring achievement of Kenya's Vision 2030. Through these initiatives, the government seeks to restore and build trust that was lost in the past. The design of Performance Contracting is purposely done to involve service consumers, whose exclusion in the previous public development policy and service delivery systems, contributed to under performance and retrogressive economic growth.

The entire contracting period is managed in consecutive series of actions in which according to OPM (2011-2012) PC guidelines, it begins with identification or submission of targets. This is followed by pre-negotiations and consultations which paves way for negotiations of performance targets. With the mutual consent there is signing of performance contracts. Eventually, the party to the contract is expected to submit a performance report which is subjected to evaluation and consequent ranking. The tasked committee will then submit evaluation report to be ultimately considered for public recognition.

## **2.5 Resource and Capacity for Implementing Performance Contracts**

Effective strategy implementation depends on competent personnel and effective internal organizational systems (Thompson and Strickland, 2007). Ministries can therefore undertake requisite activities for successful strategy implementation by attracting, motivating and retaining talented managers and staff enhancing their suitable skills and intellectual capability. By so doing, a challenging strategy and initiatives can be perfectly converted in to necessary actions and desired results.

On the other hand, budgets and funds are deemed necessary in order to realize results. This is owing to the fact that all activities need sufficient funding to facilitate action in terms of raw materials, tools and equipments.

## **2.6 Performance Evaluation**

The measurement of the extent to which public agencies and managers achieve their negotiated performance targets is an important component of the strategic performance management process (PSR&PC, 2008 - 2011). Evaluation of the performance of public agencies therefore entails the rating of actual achievements against performance targets negotiated and agreed upon at the beginning of the year. Thus “the rating of performance of organizations based on written contracts has introduced a new management tool in the Kenyan economy” (Yabs, 2010, p.239). In the same light, Drucker (as cited in Gurowitz) argues that “if you can’t measure it, you can’t manage it”. The evaluation exercise for performance contract is done *ex ante*. Nevertheless, Shirley & Xu (2001) argue that by specifying targets and evaluating results *ex post*, the PC is seen by its advocates as a way to encourage governments to reduce *ex ante* controls, giving managers more freedom and

motivation to improve operating efficiency. The end term evaluation is critical as Cole (1996) observes that there is need for comparing actual performance against target performance noting not only progress but also deviations for corrective action. An ad-hoc evaluation committee thus undertakes performance evaluation based on a comparison of achievements against the targets agreed at the signing of the contract.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

In this chapter, the techniques and the ways intended to conduct the research were discussed. This section constitutes the research design, data collection procedure, instrument to be used and appropriate data analysis method as expounded here below.

### **3.2 Research Design**

The research was carried out through a case study. This was considered appropriate due to the researcher's limitation in manipulating the variables of interest in the study. Accordingly, this research was generally concerned with obtaining detailed information about the phenomenon being studied, and then tried to establish patterns, trends and relationships from the information gathered and hence a qualitative research (Mugenda & Mugenda, 1999). The design was deemed valuable for an in-depth contextual analysis as it involves a careful and complete observation of social units (Chandran, 2004). The scope of the study was the challenges in implementation of PC in MSPS (Kenya).

### **3.3 Data Collection**

Both the primary and secondary sources of data were used to obtain information for the research. Primary data was obtained through a semi-structured interview guide whereas secondary data was gathered through reviews of existing departmental documents, records, journals, periodicals, reports and internet information.

The researcher developed an interview guide that was administered to members of staff in the Ministry. The guide was divided into three sections; section (A) was closed ended

meant to capture the general information of the staff, section (B) was asking questions related to challenges faced in implementation of performance contracting as a means of improving service delivery in the Ministry of State for Public Service, and section (C) sought to know the possible ways of overcoming the found challenges. The key respondents were to constitute the five heads of department and two other staff randomly selected from each departments. Brief follow-up and discussions was also undertaken with the respondents to enable the researcher to gather more information and make necessary elucidation on issues that were raised on the data accrued in the enumeration.

### **3.4 Data Analysis**

In this research study, the data gathered from the respondents along with secondary data from other sources were sorted out, edited, categorized, processed and analyzed by content to reach a conclusion (Mugenda & Mugenda, 1999). This research has therefore used content analysis since the subject matter is ‘textual’, and more so considering five major factors according to Delfico and Crowley (1996) that includes “the objective of the research, the data that are available or to be collected, the kinds of data required, the kinds of analysis required, and the resources needed” (15). The findings were interpreted in the light of the main research objective and hence conclusion and recommendation.

## **CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS**

### **4.1 Introduction**

The research was conducted using an interview guide among headship of departments in MSPS. Six respondents were interviewed from key departments namely; Management Consultancy Services, Human Resource Services, Human Resources Policy, Human Resource Development (HRD), and the Central Planning Unit that is responsible for implementation of PC. The objective of the study was to determine the challenges faced in the implementation of performance contracting within the Ministry of State for Public Service. Data collected was analyzed using content analysis based on frequency of words, phrases, and the use of specific thematic concepts and its implications emanating from the respondents information.

### **4.2 Respondents Summary**

The researcher intended to interview the heads of various departments. However, their unavailability caused substitution with relevant deputies. The respondents interviewed were deputy heads of departments to ensure that the sample is more informative. They are all university graduates with all of them having a master degree and that enabled the researcher the ease to get the required data. The respondents had various educational backgrounds which ensured that the researcher obtained required information on various viewpoints of performance related experiences. In addition, the respondents had worked in the Ministry between two and twenty four years. With this solid background, it was

felt that the respondents were knowledgeable enough on the issue of Implementation of Performance Contracting Strategy of the Ministry of State for Public Service.

<b>Respondent #</b>	<b>Gender</b>	<b>Job title</b>	<b>Education Peak</b>	<b>Years served in MSPS</b>
1	Male	AD/HRM	Master degree	1-4 yrs
2	Female	DD/MCS	Master degree	20-24 yrs
3	Female	C/HRMO	Master degree	1-4 yrs
4	Male	D/HRM	Master degree	1-4 yrs
5	Male	DD/HRD	Master degree	20-24 yrs
6	Male	C/Econ	Master degree	5-9 years

**Figure 1: Respondents Profile**

## **4.2 Implementation of Performance Contracting**

The research sought to investigate if the respondents' knew the concept of performance contracting, and the respondents were asked to state the goal of performance contracting in the ministry. A majority of the respondents (67 percent) viewed the concept as the sustained improvement of performance to enhance efficiency and effectiveness in service delivery through a transparent and accountable system. Further 50 percent acknowledged that their departments had signed the current (2011/2012) performance contract with the authorized officer. The responses therefore indicated that majority of the participants were conversant with performance contracting.

Each respondent confirmed having performance objectives. However, they argue that some targets set are confusing to the extent that there is a thin line between target and routine work. As a result, work plans are drawn procedurally but adhering to it religiously is said to be difficult owing to adhoc assignments that many-a-times take priority. The respondents also do not fully agree to experience effectiveness and efficiency envisaged with advent of performance contract. It is argued that when results are hardly realized and resources not economically used, then effectiveness and efficiency are dreams than a reality. This is due to various challenges faced in undertaking contract yet the plans could be well designed for execution.

There was a general consensus that by design everyone has a supervisor although in practical sense the supervision is not continuous. Performance appraisals give room for supervisory activities as it is a requirement to assess and approve the appraisal form. This is evident with the formalities of mid-year performance reviews which are religiously observed. The level of output is said to be average due to various challenges and the precision in the result is not as always intended arising from deviations caused by handicaps in implementation.

The respondents noted that the performance in the ministry is measured by individual appraisal and departmental evidences of performance and results. They argue that performance appraisal forms and quarterly performance reports are used to ascertain output levels. Nevertheless, the respondent hold that since no prompt feedback is given about individual and departmental performance, the culture developed is entirely apathetic as far as contracts are concerned.



To investigate respondents' experience with the implementation of performance contract, the researcher asked several questions regarding whether the participants had signed performance contracts with their supervisor and if they had experienced any problems with implementation of the performance contracting. The result was interesting as only 3 out of the 6 respondents had witnessed signing of the performance contract.

### **4.3 Performance Appraisals**

Performance management process (in which contract is a subset) typically involves four main components namely; work plan management, skills development, performance monitoring and evaluation, and rewarding of outstanding performance. In terms of work plan management, respondents argue that this is to be based upon ministerial strategic plan and other related documents. As a beginning of the process, a staff member and supervisor agree on the key responsibilities and targets to be achieved during the period under review. The plan also sets out how the staff members' performance will be measured or evaluated against the set objectives. The performance aspect of the plan obtains agreement on what has to be done to achieve objectives, raise standards and improve performance. On the part of skills development, the staff member and the supervisor identify and agree on the training requirement, development and information needs of the staff member to meet their performance which to a large extent will meet the ministerial objectives. This includes 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 feedback to the supervisor on their progress towards the achievements of the agreed performance objectives. The

supervisor provides regular formal and informal feedback on the assessment of the staff member's achievements.

Shirley and Lixin (1997) add that before the performance contracts were put in place, most governments were trying to run their state enterprises without any form of performance evaluation which made life difficult when appraising employee at the end of the performance period. However, the respondents acknowledge that a rudimentary form of performance appraisal existed even before the emergence of performance contracting.

All the respondents view performance appraisal as a common practice. According to the interview, there is a missing link between performance contracting and performance appraisal for individual staff. Nevertheless, a strategy for performance improvement in the public service holds that "improved service delivery will be facilitated if performance appraisal is extended to staff appraisal and this linked in turn to incentives and reward for good performance" (DPM, 2001, p.36). Consistent with this disconnect, one interviewee believes that missing linkage is largely responsible for underperformance in which unclear roles and mandates, duplication of functions, and wastage of resources confuse supervision even further.

#### **4.4 Challenges Faced in Implementation of PC**

Challenges manifest in many forms, both operational and institutional. The problems experienced during the implementation of the performance contract are, among others, delayed contract signing, lack of adequate resources, resources not being released on time, and unplanned transfer of staff (Kobia & Mohammed, 2006). Institutional hurdles are also rife emanating from structure, management and culture prevailing within the

ministry. In addition, Stephenson (as cited in Daily Nation of 25<sup>th</sup> October 2011) observes that poor communication of a strategy, lack of effective means of measuring performance management, and absence of staff behavior that is aligned to what is needed to deliver a strategy are the most common ailments of Kenyan organizations. Since there are many challenges enlisted by the respondents, the researcher has categorized those challenges in to two aspects: operational and institutional challenges as analyzed below.

#### **4.4.1 Operational Challenges**

While many employees believe they are operationally sound and are comfortable with their level of performance, others seek more but are frequently stymied in their endeavours. In the light of hindrances, DPM (2001) raised two major challenges for improving the performance and productivity of the Civil Service, both those of refining organizational mandates and structures and strengthening management. As such the research interviews conducted revealed a few operational areas inhibiting ministerial performance as discussed below.

##### **4.4.1.1 Resources**

According to [businessdictionary.com](http://businessdictionary.com), resource is an economic or productive factor required to accomplish an activity. Among the most basic resources is labour while other resources include energy, entrepreneurship, information, expertise, management, and time. In view of performance contracting, human resources, time resources, information, expertise and management jointly play a critical role to realize targets set under contracts. Whereas resources are largely limited, the research deduced funding and human capacity as the major constraints.

#### **4.4.1.1.1 Financial resources**

The performance of service delivery is dependent upon the allocations and releases of the recurrent budget to finance both personal emoluments and operations and maintenance expenditures (DPM, 2001). The interviewees are generally of the opinion that limitations in funds allocated are posing a major challenge. It was largely argued that projects and tasks are planned forming the targets to be achieved with expectation that the proposed budget is approved. The prospect of funding might not materialize leading to underperformance or even non-performance in regard to predetermined objectives. Respondents also raised an issue with reallocation of funds that comes midway in the performance of tasks leading to unfulfilled targets. There is a general feeling that budgets do not eventually support predefined targets as it swings with prevailing circumstances hence unforeseen reallocation or cutting. Lack of sufficient linking of treasury budget with performance targets is unsupportive of the spirit of performance contracting that can help in conversion of predetermined targets into realized targets.

#### **4.4.1.1.2 Human Capacity**

Whereas the focus of performance is to satisfy the customers by way of service delivery, it is important to consider the needs of the service providers. Lings (2004) emphasizes the importance of human resource management when he pointed out that many researchers and employers neglect one important focus, the demand of internal employees, especially those who directly get in touch with customers. Given that the attitude and behaviour of employees interacting with customers would influence the feeling and behaviour of the customers when they get the service, it is quite important for supervisors to efficiently define and manage the way their employees provide the service in order to make sure that their attitude and behaviour are fit for providing the service. As such, Lings (2004) argues

that if properly executed, performance contracting has a significant positive effect on staff commitment and satisfaction. The research through the in-depth probing found that the application of internal service orientation strategy viewpoint could benefit to promote the ministry's internal and external performance. Hence it could benefit the service to establish perfect human resources management strategy with results viewpoint, and maintain the value goals of continuous relevance, high productivity and quality service to the customers.

#### **4.4.1.2 Bureaucracy**

Slater (1999) holds that performance contracting if well executed may increase real speed in decision making and builds self-confidence in employees. The respondents reckon that bureaucracy which is a common feature in governments that still rely on the management apparatus that had worked in the 1970s is derailing the speed and simplicity which are some of the essentials of the performance contracting. Ochien'g (2010) corroborates this view that the long bureaucratic procedures of public institutions makes it hard for staff to realize some targets especially the institutions in the lower-stream as they may have to wait long to receive funds for execution of plans. Nevertheless, half of the respondents think that 'red tapism' and bureaucracies are generally to blame for many unnecessary delays particularly with regard to release of funds and signing of contract hence affecting implementation of PC.

#### **4.4.1.3 Leadership/Management style**

Leadership is the process of persuasion, where an individual induces a group to pursue certain objectives (Awino et al, n.d.). Leadership thus exerts influence with respect to

behavior. The managers' leadership is crucial and the implementation of strategic management systems needs leaders who drive the change (Torres et al, n.d.). Adequate support and commitment from top management is indispensable for sustainable performance. Accordingly, strategic leadership should ensure that values and culture within an organization are appropriate for satisfying key success factors.

The respondents view that performance leadership is the way to manage and lead organization towards success. One respondent expressed that "by focusing everything we do on what citizens value most we get things done better, faster and more cost effectively, creating value for our nation". Performance leadership is a systematic, results oriented approach to management and leadership for high performing organizations, teams and individuals (trimentis.com). This approach consolidates the fundamentals of management and leadership within the organization, and then builds on clients' existing abilities by increasing the vigour, range and effectiveness of their capabilities.

The respondents generally thought that the leadership and management style need to be improved to accommodate participatory approach to achieving results. This is argued in the light that team work is principally important for performance that requires complementary effort all the times. From the in-depth probing, the research shows that a key factor limiting ministerial success is a systemic hurdle to provide effective development for lower echelons and teams in the fundamental skills of management and leadership yet they form a bulk of employees.

On the part of the managers, Thairu (2011) views that the greatest competitive advantages for companies is based on how skilled their managers are on the "soft issues" that form the basis of the good leadership. Such skills crucial to performance of

supervisors include the ability to reward, recognize and motivate others, managing change and conflict, coaching and mentoring, communication, planning and setting goals, customer service, recruiting and retention, performance management, negotiating and managing stress.

#### **4.4.1.4 Inconsistency**

The respondents noted that there is an inconsistency between performance contracting and other performance management tools and instruments. Furthermore, according to the Review of Performance Contracting in the Public Sector report (September, 2010), there is neither an adequate linkage between performance contracting and the budgeting system nor a clear line of sight from Performance Contracting to the national priorities. As such, government efforts are not fully focused on realization of Vision 2030 and its related medium term plan.

#### **4.4.1.5 Measurement/Evaluation**

The respondents recognize the usefulness of Performance Contracting as a tool for improving service delivery. However, there is an apparent mismatch between the results generated by the Performance Contracting tool and the reality on the ground. The public has raised dissatisfaction on the results as they do not resonate with service delivery on the ground as perceived by the public. The dissatisfaction with the performance results was not only with members of the public but also Ministries, Departments and Agencies who have also challenged the announced results. Indeed, the general outcry over the results is so strong that it points to the credibility of evaluation. In view of this, the

respondents propose that the evaluation be largely done by the consumers of the service and it must be taking a sectoral approach for the purpose of comparison and ranking.

The process of monitoring and evaluation is defined by management theory, as well as political science theory, as the collection and analysis of relevant data about organizations' achievements and the implementation of actions to improve future performance (McKelvey & Palfrey, 1996). Control and monitoring is frequently identical with accountability when public needs and interests are involved. As was viewed by Stewart and Ranson (1994), organizations in the public domain exercise substantial power for which they are accountable. Public accountability must involve a political process which responds to the many voices of citizens and other stakeholders.

A response is defined by Hirschman (1980) as a pure political action compared with an exit which represents more of an economical action. Since citizens generally do not have the alternative of exit in a public market, the option of voice becomes more relevant and imminent. Moreover, it seems that western democracies are facing pressures for greater rather than less accountability on behalf of their citizens (Anthony & Young, 1984).

Performance evaluation is, therefore, a critical stage in the performance contracting process. It is based on the premise that what gets measured gets done. Performance evaluation assesses the extent to which public agencies have achieved the agreed performance targets. Thomas and Palfrey (1996) conceive that citizens are the clients and main beneficiaries of public sector operation and thereby should be involved in every process of performance evaluation. In their study, responsiveness of the public sector to citizens' demands is mentioned as an important part of performance control since it refers



to the speed and accuracy with which a service provider replies to a request for action or for information. According to this definition, speed can refer to the waiting time between citizens' requests for action and the reply of the public agency. Accuracy means the extent to which the provider's response is appropriate to the needs or wishes of the service user. Nonetheless, while speed is a relatively simple factor to measure, accuracy is a more complicated one.

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. This process could be true for almost any situation; those who naturally fit well into an organization's mission and culture are more apt to be selected and rewarded in some fashion.

Dessler (2003) observed that good evaluations are almost invariably mixed method evaluations. Qualitative information informs both the design and interpretation of quantitative data. He noted that many evaluations under-exploit qualitative methods, both in the techniques they use and the way in which analysis is undertaken. Field experience by members of the core evaluation team is an invaluable source of qualitative data which cannot be overlooked for good quality evaluations.

#### **4.4.1.6 Communication**

Communication is all about giving information to another party who can exhibit effectiveness by way of constructive feedback. All the respondents agree that there are forms of communication about the PC devolution - mainly in memos and letters. However, majority of the respondents are concerned that formal communication without verbal elucidation is not enough to make one understand the implementation of PC. As a result, there is confusion in setting objective targets that can help achieve overall performance targets. The theory of contracting nevertheless suggests that to improve performance, performance contracts must not only reduce the information advantage that managers enjoy over owners but also must be motivated through rewards or penalties to achieve the contract's targets. Shirley (1998) argues that the logic of performance contracts is persuasive, but the reality has been disappointing.

Furthermore, the theory suggests that PCs will improve performance when they reduce the information advantage enjoyed by managers, increase managers' incentives to overcome their disutility of effort, and strengthen the ministry's commitment to honor the contracts. If PCs do not reduce information asymmetry, it is expected that managers will exploit the opportunity to avoid obligation, perhaps by negotiating lower targets than they could potentially achieve, and performance will not improve.

#### **4.4.1.7 Transfers, Tools & Equipments and Performance**

##### **Reporting**

At a minimal level, some respondents also experienced a general challenge of performance contracting in which unexpected transfers that occur in the middle of the

contract year disrupts cumulative target achievement to be evaluated at the end of the year. It is also observed that lack of appropriate tools and equipment contributes to un-implementation of some targets. Accordingly, owing to lack of working apparatus, some targets may remain unattended hence no results.

The required periodic reporting is also argued not forthcoming. There are intermittent reports expected from various quotas of the ministry to allow collation of milestones and impediments. There is lack of enthusiasm from employees to submit required reports and therefore leading to dismal performance and coordination problems.

#### **4.4.2 Institutional Challenges**

The researcher views institutional challenges as those that relate to non technical issues but indispensable in achieving the ministerial goals. It includes but not limited to organizational culture, structure and political will.

##### **4.4.2.1 Culture**

The respondents do not universally share the view about whether the implementation of performance contract has brought noticeable changes in the ministerial culture. However, 50% of respondents report some changes in behaviour but 30% have not perceived any change. The respondents, out of their long experience, argue that the civil service culture is quite gradual in adapting to performance culture significantly attributable to its massive nature and structure.

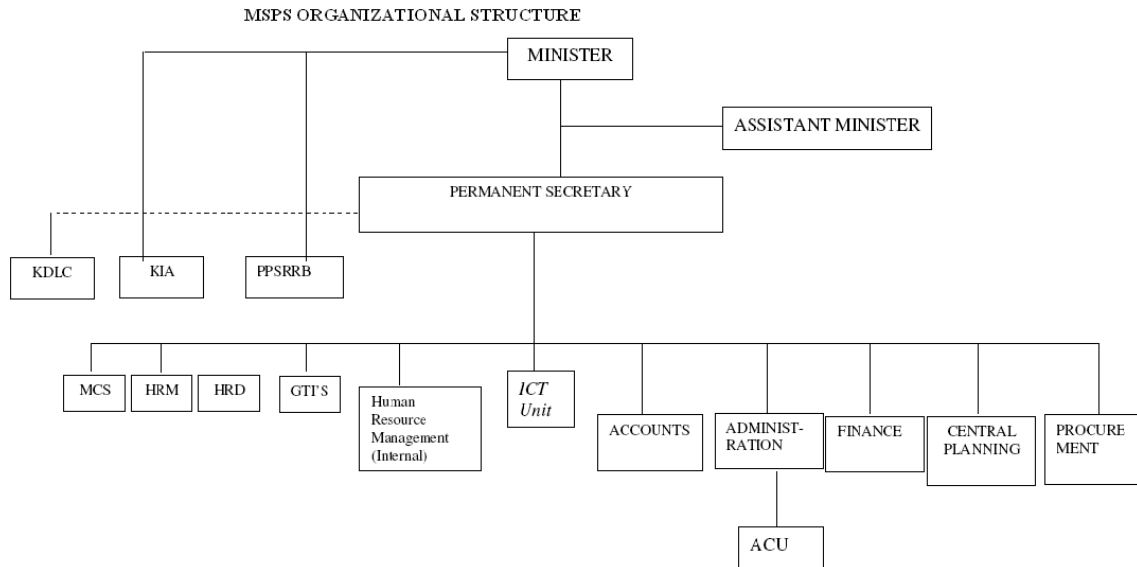
Culture refers to a shared meaning, shared understanding and shared sense making (Awino et al, n.d.). Therefore, a shared understanding is a necessary element of moving

towards the culture of performance management because it ensures that performance indicators and performance data are interpreted consistently at different levels of the organization. Performance management in the wider sense becomes possible when everyone understands the objectives of the organizations and the link between performance indicators and these objectives (Micheli and Pavlov, n.d., 8).

#### **4.4.2.2 Structure**

There is a long standing concern that the strategy literature needs a better understanding of how organizational structure and decision-making affect organizational performance. It is nevertheless viewed that organizational structures should be in such a way that it can respond to environmental pressure to change and pursue any appropriate opportunities which are spotted. Thompson and Strickland (1980) observe that while strategy formulation requires the abilities to conceptualize, analyze and judge, implementation involves working with and through other people and institutions of change. It is important therefore that in designing the structure and making it operational, key aspects such as empowerment, employee motivation and reward should be considered so that it enhances the organization's capacity to achieve superior efficiency, quality, innovation and customer responsiveness.

Nonetheless, respondents generally note that the performance contracting needs team approach rather than hierarchical approach. As evident in the organogram below, the decision processes apparently cascades from the apex to the subordinates facing delays yet contract related activities are time-bound and needs prompt action.



**Figure 2: MSPS Organizational Structure (Source: MSPS strategic plan 2008/12)**

The outcome on whether the structure of the ministry affects how objectives and policies are implemented was that it does affect given that every department has its own roles to play within the ministry and also the shorter the structure the faster the making and implementation of decisions in the ministry. Consequently, key aspects such as empowerment, decision making and communication processes should be highly considered and integrated in order to achieve best results. Performance contracting constructively needs a flat organizational structure that would facilitate quick decisions and faster actions.

#### **4.4.2.3 Resistance to change**

The study results with respect to change expected reveals enormous hurdles. This is true because there is little involvement of all the stakeholders as perceived by the respondents. Strategy is conceived in a boardroom and cascaded with less regard to ownership of the processes. The respondents believe that employee resistance is inherent and culture-

forming as the understanding of the PC concept is minimal. This emanates from the devolution of strategic performance aspect which is done with scanty information leading to lopsided understanding of the entire concept. It is therefore construed as a measure that there should be adequate sensitization for all levels of PC implementation. Thus, involvement of all staff at all levels and giving enough training on performance contracting are deemed necessary to reduce on any form of resistance.

#### **4.4.2.4 Political will**

For the purpose of this research, political will concerns the inclined interests that various headship is apparently pursuing. To some extent, some respondents view that there is minimal will which is hardly supported by ability or action. Therefore, the agency problems are compounded in the public sector, where politicians have many points of view and bureaucrats have many different agendas (Shirley, 1998). Under such circumstances it is hard to judge performance and to motivate managers and hold them accountable for results. Moreover, unlike private owners, politicians may not benefit from better performance, and so may try to make managers serve objectives that conflict with efficiency, such as rewarding political supporters with jobs or subsidies.

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

### **5.1 Introduction**

This chapter addresses the research question and the objectives outlined in chapter one. The section also covers the summary, conclusions, as well as recommendations for policy, and practice. It also touches on research limitations and suggestions for further research.

### **5.2 Summary**

This research revealed several challenges to PC implementation at MSPS. The researcher classified these challenges into two broad categories namely; Operational challenges and Institutional challenges. Operational challenges are factors that pertain to the behaviour of individuals within the organization. As such, resistance to change was major factor, making it difficult for the ministry to effectively implement cost-cutting strategies. There was also low level of coordination and relationships building among departments, making it difficult for the ministry to uphold social cohesion among its workforce. The result of this was low teamwork, a negative factor to successful PC implementation.

Macro-organizational challenges were experienced and to a large extent it affected many people within the ministry. The ministry lacked an enabling legal framework to implement its strategies particularly enforcing performance contracting. It also experienced financial constraints making it difficult to carry out regular appraisals and evaluation, rewards and motivation, as well as periodic procurement of other required

material resources. This led to low morale among employees resulting to low labour productivity. Financial constraints further made it difficult for the ministry to expand and upgrade its information systems. The organization structure required restructuring as one way of enhancing PC implementation. Preference for decentralized decision-making was high, although centralized system was prevailing. Communication was as well mentioned as a challenge within the ministry. This problem was attributed to lack of a structured communication policy where the bigger part of communication was verbal and less involving leading to widespread grapevine.

The findings indicate that service delivery will not be achieved to the optimum even with performance contract until stakeholders are appropriately and adequately involved. Performance or non-performance is the immediate indicator of the ministry's success in meeting its operational mandate. The sole purpose of the ministry should not be to purely maximize the productivity but also the mitigation of loss experienced through unproductive labor force. Hence, performance is a precondition for a successful and productive service ministry. The research also revealed that MSPS by and large views Performance Contracting System to be an effective strategic management tool of achieving overall ministerial targets. However, there are hindrances emanating from the ministerial structure, culture, management style, funding, human capacity, communication and coordination, inconsistency, resistance to change, political will and performance evaluation.



### **5.3 Conclusions**

Based on the findings revealed, the conclusion may be drawn that performance contracting faces both institutional and operational challenges eventually affecting the overall performance of the ministry. PC is deemed to be central to the translation of ministerial mandate in to achievable goals and objectives serving as a practical means of realizing vision 2030. It also provides the ministry's management with a systematic roadmap for guiding result-related processes. PC is acclaimed to be an effective management tool for achieving results within the ministry.

Performance Contracting is part of the wider performance management system. In undertaking the research on challenges of Performance Contracting in the Ministry of State for Public Service, the researcher reached the conclusion that the process should be increasingly institutionalized and mainstreamed in the ministry. However, the full benefits of Performance Contracting will be realized when all the staff are involved to embrace the system by knowledge and culture.

The proper implementation of a PC will not only allow service delivery providers to comply with the duty responsibilities but will definitely yield significant service improvements. The Ministry gains critical benefits through achieving the following service stature; relevance, performance and customer support – customers are aware of some rights and obligations, and possible reduction in costs through mitigated resource losses.

As a result of the increasing number of reforms and subsequent need for operational accountability and transparency, government agencies are increasingly adopting the use

of fused and harmonized sets of performance platforms. The research has revealed that the following are some of the areas where the implementation of PC can enhance the levels of productivity in service delivery: policy compliance, financial management, better management and leadership structure, output quality assurance, effective policy and operations management, continuous performance control and supervision, organized work schedule and duties, and prompt service delivery among others. As such, a well coordinated and supported implementation of a PC would engender a wide sense of ownership of the strategy making the ministry more focused and increasingly responsive to the needs of those it serves.

Performance reviews really require open communication. Keller & Associates (n.d.) argue that both the reviewer and employee need to keep in regular communication with concerns regarding performance and determine if the employee is an appropriate fit for the position. Employees should be armed with the necessary tools and support to meet or exceed performance objectives and the supervisor should be available to provide honest feedback and support in order to get the most potential from the employee. This type of honest relationship will serve a mutual benefit to the employee and to the ministry by preventing the many issues that may occur as a result of dishonesty about performance.

Notwithstanding the different ways in which the expression ‘performance culture’ was used, all interviewees argued that a culture of performance has to pervade public sector agencies at all levels. However, the achievement of a ‘culture of performance measurement’ requires more sophisticated statistics in place and greater attention paid to how data is gathered and analyzed. On the other hand, the attainment of a ‘culture of performance management’ entails a deeper understanding by everyone within the

Ministry for the reasons and benefits of measuring and managing performance. Indeed, all the senior managers interviewed stated that, to provide better services, performance indicators should be understood, accepted and used within the Ministry.

#### **5.4 Recommendations**

The research recommends that the top echelon in the ministry should transform the culture which they have been embracing so that they can ensure that the PC achieves intended objectives in a sustainable manner. The ministry should also enhance the PC coordinating committee to ensure that the strategies in the ministry are sufficiently coordinated. There is also the need to review organizational structure so that it can accommodate timely issues of PC and allow efficient flow of information among the ministry staff and hence increased communication for performance.

The leadership and management style should be effective by way of restructuring organizational architecture in a manner that motivates employees with the relevant knowledge to initiate value-enhancing proposals. A good leader is one that involves the staff in all matters of strategy including planning, implementation and evaluation. The study further recommends that all the employees be trained so that a shared understanding and purpose, and implementation of performance contract is created. In order to reduce on extremes of tall targets or lower targets there is need to make all inclusive approach on setting departmental targets so that there is ownership in the overall target.

Generally, the evident challenges in implementation of PC within MSPS calls for a strategic fit of the ministry's core competence levels, technology (tools and equipment),

improved leadership and management styles, integration of PC with budget for supportive funding, enhancing performance culture, and embracing continuous learning, which is an emerging paradigm in strategic management. It is also recommended that evaluation be done on sector basis with moderating input from the public rating before announcement of ministerial results. Above all, it is recommended that the PC process be simplified and automated with prompt feedback on reports.

### **5.5 Limitation of the study**

The research was limited to determining the challenges faced in implementation of PC in the Ministry of State of Public Service. It was therefore limited to one Ministry and precisely the departmental headships owing to time constraints hence the in-depth review of the challenges at sub-departmental levels was not possible. Other research may be undertaken to understand the extent to which each of the performance contracting challenges would influence the success of performance contracting among government ministries. Each of these challenges could be correlated against ministerial success factors to establish their extents especially on ministerial productivity, quality of products or service and levels of value addition with advent of performance contracting concept in the government ministries.

### **5.6 Suggestions for further research**

Since the research was limited to determining the challenges faced in implementation of PC within MSPS, a survey study is suggested to establish the extent to which comparable ministries experience the depicted implementation challenges so that the findings can be generalized for universal policy intervention.

## **5.7 Implication on Theory, Policy and Practice**

The research has revealed that proper implementation of PC will significantly contribute to the level of service delivery within the MSPS and increase the ministerial performance if the challenges are surmounted. Success in performance contracting will be, to a greater extent, strengthened by the existence of a positive performance culture. In the context of this research, performance management culture in the ministry can be described as the extent of institutionalization of PC which constitutes the way employees perceive and embrace the performance contract. Performance culture needs to be inculcated by way of principled communication of top management and results in all staff adapting a performance culture which seamlessly transcends divisional limits.

It is recommended that performance should be managed in participatory approach in which 'lowers' and 'uppers' are involved in all stages to realize optimum benefits. Performance contract should be viewed as an integral strategic aspect of performance management, considering the high priority attached by the ministry to performance. All levels of management should be interwoven into performance accountability so as to sustain productivity and results. As such the involvement of the lower level staff and operatives must be emphasized. In the words of Stephenson (as cited in Karambu, 2011) a remedy was proposed that the clients should ensure the involvement of all levels of management in developing and executing the strategies while embracing regular access and monitoring the achievement of set targets through automated and integrated performance management tools (Karambu, 2011).

To ensure that there will be adequate consistency, the ministry should develop and adopt a comprehensive performance management system which will integrate the various performance management tools and also strengthen linkages and alignment of the Performance Contracts to the National Blue Print; Vision 2030 and Medium Term Plan through greater involvement of all staff.

The theory of contracting suggests that to improve performance, performance contracts must reduce the information advantage that managers enjoy over owners, motivate managers through rewards or penalties to achieve the contract's targets, and convince managers that the government promises in the contract (such as to pay bonuses or impose penalties) are credible (Shirley, 1998).

As observed by Promin Consultants Ltd (December, 2009), the Government should therefore improve its performance with respect to communicating effectively; enhancing staff knowledge and competence through training and development; inculcating the virtue of exceeding customer expectations; re-engineering service delivery to attain a one-stop service status; and improving staff respect for customers.

In the view of the above, integration of performance contracting with various performance dimensions such as appraisal and the prevalent ISO quality principles would lead to heightened service delivery and compliance.

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# APPENDICES

## Appendix I: UNIVERSITY INTRODUCTORY LETTER



### UNIVERSITY OF NAIROBI SCHOOL OF BUSINESS MBA PROGRAM - LOWER KILIMBARI CAMPUS

Telephone: 011-7359157  
Telegrams: UNIVNAI, Nairobi  
Telex: 20705 UNAIK

P.O. Box 1957  
Nairobi, Kenya

DATE 7<sup>th</sup> August 2011

#### TO WHOM IT MAY CONCERN

The bearer of this letter JAMES R. W. IRAKI  
Registration No. 100130162/09

is a Master of Business Administration (MBA) student of the University of Nairobi.

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 if you assist him/her by allowing him/her to collect data in your organization for the research.

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.

  
DR. W.N. IRAKI  
COORDINATOR, MBA PROGRAM  
SCHOOL OF BUSINESS  
P.O. BOX 1957  
NAIROBI

**Appendix II: PERSONAL ACCESS REQUEST**

*Jarso*  
*Approved. Liaise with Sr/A to give approval letter*

Jarso Roba  
Ministry of State for Public Service  
Payroll Audit Unit  
10<sup>th</sup> August, 2011

The Permanent Secretary,  
Ministry of State for Public Service,  
P.O. Box 30050-00100,  
Nairobi.

*JAR*  
*12/8/11*



Dear Sir,

**RE: Introduction and request for access to Information**

I am an employee of Ministry of State for Public Service, Payroll Audit Unit. Further, I am a postgraduate student in School of Business, University of Nairobi. As part of my Master of Business Administration (MBA) course requirement, I am undertaking a research project (see attached introductory letter) that seeks to determine "the challenges faced in implementation of Performance Contracting – a case study of MS/PS".

In order to fulfill this requirement of my study, I intend to collect primary and secondary data from your Ministry. The information requested is needed purely for academic purposes and will be treated with utmost confidence.

I would be most grateful if you allow me the access to all relevant information pertinent to this research. Any additional information you might consider necessary for this study is most welcomed.

Thank You.

Yours Faithfully,

*Jarso Roba*  
Jarso Roba (Student)



## Appendix III: RESEARCH AUTHORIZATION



### OFFICE OF THE PRIME MINISTER MINISTRY OF STATE FOR PUBLIC SERVICE

Telegraphic address: "Personnel", Nairobi  
Telephone: Nairobi 227411  
Telex: 23125  
Fax: 243620

P.O. BOX 30050 - 00100  
NAIROBI,

When Replying please quote

**MSPS/L.R.R/10/14 (65)**

**19<sup>th</sup> August, 2011**

Ref. No .....

.....  
and date

**Mr. Jarso Roba,**  
Ministry of State for Public Service,  
Payroll Audit Unit,  
**NAIROBI.**

#### **RE: RESEARCH AUTHORIZATION**

Reference is made to your letter dated 10<sup>th</sup> August, 2011 requesting to be the authorized to collect primary and secondary data from the Ministry in your research "THE CHALLENGES FACED IN IMPLEMENTATION OF PERFORMANCE CONTRACTING - A CASE STUDY OF MINISTRY OF STATE FOR PUBLIC SERVICE; to fulfill your MBA course requirement.

This is to inform you that your request has been authorized to undertake your research in the Ministry for the time it will be carried out.

Upon completion of your research process, the Ministry will be pleased to be informed on the outcome of your research. Please submit two copies of your dissertation/thesis to the Ministry of State for Public Service library and this office.

A handwritten signature in black ink, appearing to read 'Murumba S. Chiuli', written over a rectangular stamp area.

**Murumba S. Chiuli**

**For: PERMANENT SECRETARY**

## Appendix IV: INTERVIEW GUIDE

\*Self introduction, express the purpose of the interview, time to be taken and confidentiality thereof.

### Section A: BACKGROUND OF INTERVIEWEE

#### Gender

Male [ ]

Female [ ]

**Job Title/Designation:** .....

<b>Educational Peak</b>		<b>Period of service (in years)</b>	
A level	[ ]	Less than 1 yr	[ ]
O level	[ ]	1-4	[ ]
Diploma/Higher Diploma	[ ]	5-9	[ ]
First degree	[ ]	10-14	[ ]
Second degree/Masters	[ ]	15-19	[ ]
PhD	[ ]	20-24	[ ]
		25-29	[ ]

## **Section B**

### **I. PERFORMANCE CONTRACTING**

1. Is your contract derived from the ministry's strategic plan/mandate?
2. Do you have goals and objectives for your job?
3. Have you set targets within your range of work?
4. Are you bound by work plans and schedule of duties?
5. Do you experience effectiveness and efficiency as terms of your work?
6. Is your work always done as per schedule/ on time?
7. Do you always keep time by being punctual to the office and work?
8. How is your work supervised?
9. Does your department hold mid-term performance reviews as appropriate?
10. Tell me about the level of output: is it high and of quality as expected?
11. Do you cherish your achievement and results?
12. How is the level of accuracy/precision in the results
13. How is your performance measured in your current job? How often, over the last twelve months, did you meet or exceed your assigned goals? Tell me about a time you did not meet your goals? What steps did you take?
14. What are the key elements of measuring performance? And how can you establish whether an outcome represents a success?

### **II. CHALLENGES FACED IN IMPLEMENTATION OF PC**

Which among the following factors pose a challenge to you and those you supervise in ensuring high performance in your department/division/section?

1. Resistance to change by employees ( )
2. Resistance to change by managers ( )
3. Change of performance culture and behavior of employees ( )
4. Negotiations of realistic yet tall targets ( )
5. Lack of training of staff on all aspects of performance contracting ( )

- 6. Dragged-in stress/family-work imbalance ( )
  - 7. Lack of clear objectives/ goals/ targets ( )
  - 8. Inadequate or fluctuation in funding ( )
  - 9. Inadequate tools and equipment ( )
  - 10. In adequate motivation/ remuneration/recognition ( )
  - 11. Limited skills and knowledge- Training ( )
  - 12. Belated timing of contract signing ( )
  - 13. Transfer/removal of staff midway in performance period ( )
  - 14. Mergers/split of ministries ( )
  - 15. Legal obstacles <lack of legal framework> ( )
  - 16. Low targeting to beat competition ( )
  - 17. Linkage between planning, budgeting & target setting ( )
  - 18. Poor grasp of strategic management ( )
  - 19. Immeasurable output/outcome ( )
  - 20. Any other performance impediments: To specify
- .....
- .....

**SECTION C**

Suggest the way(s) forward to combat the above stated challenges

- 1.
- 2.
- 3.
- 4.
- 5.

**Thank you for your views**