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Employee Perception of Performance Contracting in
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Abstract

Purpose: Drastic and fundamental changes are increasingly occurring in the environment in which organizations operate. An obvious manifestation of the responses towards this turbulent environment is the introduction of performance contracting as part of the broader public sector reforms aimed at improving efficiency and effectiveness in the management of the services. Employees form a major stakeholder group in an enterprise. However, their productivity and performance is dependent on their degree of motivation. This can be influenced by how they perceive and interpret various initiatives that may be introduced by the organization; a critical one in this regard being introduction of performance contracting. Performance contracting is a devolved management by outcome rather than management by processes. It provides a range of management instruments used within the public sector to define responsibilities and expectations between parties to achieve mutually agreed result. This research work sought to investigate the disconnect that may arise between employee perception of performance contracting in state corporations, based on their initial expectations from such a plan. The main objectives investigated during the study were to establish employee perception of the performance contracts adopted by the state corporations.

Methodology: A sample of 160 respondents was used in the study. The data collected was presented using tables and analyzed using descriptive statistics i.e. frequencies, percentages, mean scores and standard deviations.

Findings: The study established that there was a significant perception gap between employee expectations and perceived performance of the strategy in all indicators measure.

Unique contributions to theory, practice and policy: Recommendations made were that, all employees need to be stakeholders in the future direction of the organization, even if it be in varying degrees. Their daily performance and activities should be measured along the specific milestones and core values identified by the contract, since what cannot be measured cannot be managed.

Key Words: *Performance Contracting, Employee Perception, and State Corporations*

Background of the Study

Organizations today face turbulent and rapid changing external conditions that are translated into a complex, multifaceted, fluid and interlinked stream of initiatives. These are affecting work and organizational design, resource allocation, systems and procedures in a continuous attempt to improve performance (Huczynski and Buchanan, 2001). With these environmental changes the public sector has come under intense pressure to improve their operations and processes so as to reduce its reliance on exchequer funding. Also to increase transparency in operations and utilization of public resources, increase accountability for results and to deliver products and services more efficiently and at affordable prices to the tax payer/ customer. Thereby, forcing governments to institute reforms in the public sector (NPR 1997). The performance contracting is part of the broader public sector reforms aimed at improving efficiency and effectiveness in the management of the services. Organizations are increasingly faced with the challenge to do things better, with fewer resources and above all improve on service delivery. Performance contracts however, have their origins in the perception that the performance of the public sector has consistently fallen below the expectations of the public. Nellis (1989) defines performance contracting as a freely negotiated agreement between government, acting as the owner of a public enterprise, and the enterprise itself, in which the intentions, obligations and responsibilities of the two parties are freely negotiated and then clearly set out. It organizes and defines tasks so that management can perform them systematically, purposefully, and with reasonable probability of accomplishment. Performance based contracting has been identified by both the private and public sectors as an effective way of providing and acquiring quality goods and services within available budgetary resources (Mapelu 2005, NPR 1997). Whereas within the private sector, profit orientation and competitiveness have necessitated the introduction of performance contracts, the public sector has taken long to embrace the practice, especially in the developing countries (Shirley 1998; NPR 1997). Performance contracting has been widely used in the public sector by the developed countries such as France, the Netherlands and New Zealand among others with marked success. The experiences in developing countries though, citing case studies in China, India, Morocco, South Africa, Cote D' Ivore, and Gambia among others, have shown mixed results (Shirley 1998; Shirley and Xu 2001; Mapelu 2005; Trivedi 2004).

In Kenya, performance contracting concept can be traced to early and mid- 1990's when a few state corporations namely Kenya Railways, National Cereals and Produce Board, Kenya Airways, Mumias Sugar Company and the defunct Kenya Posts and Telecommunications attempted to develop variants of performance contracts. Most of these were not implemented and those that were implemented were found unsuccessful. A new approach to the performance contracting concept in line with the objectives of Economic Recovery Strategy for Wealth and Employment Creation (2003 – 2007) was initiated with selected public enterprises on a pilot basis from October 2004 – See Appendix 2. The government of Kenya started sensitizing the public sector

corporations on the concept of performance contracting using the performance contracting sensitization manual (GOK 2005 a). It developed an information booklet on performance contracts (GOK 2005 b) to guide on the process of performance contracting.

Performance Contracts

Nellis (1989) defines performance contracts as a freely negotiated agreement between government, acting as the owner of a public enterprise. It is an agreement between two parties that clearly specifies their mutual performance obligations, intentions and responsibilities. NPR (1999) presents the view that performance contracts whether in public or private sector, have the major objective of providing a performance management technique that largely draws on performance measurement and monitoring and gives a basis for performance appraisal and rewards. G.O.K (2005 a) argues that the problems inhibiting performance in government agencies are excessive controls and regulations, multiplicity of principals, frequent political interference, brain drain, bloated staff levels, poor management and outright mismanagement. Malathy (1997) argues that for the adoption of performance contracts as an alternative public enterprise reform strategy where privatization may be less feasible due to political or technical reasons, particularly those requiring sophisticated legal and regulatory structures or those that cannot be easily privatized for political reasons. Mann (1995) advances that there are multiple ways of improving efficiency of public enterprises, one of which is the mechanism of performance contracting. OECD (1999) observes that performance contracting is but one element of broader public sector reform aimed at improving efficiency and effectiveness of public enterprises, while reducing total costs.

It asserts that performance contracts are a range of management instruments used to define responsibilities and expectations between parties to achieve mutually agreed results. A performance contract addresses economic, social or other tasks that an agency has to discharge for economic performance or for other desired results. It organizes and defines tasks so that management can perform them systematically, purposefully, and with reasonable probability of accomplishment. It also assists in developing points of view, concepts and approaches for determining what should be done and how to go about it. Performance contracts comprise determination of mutually agreed performance targets and review and evaluation of periodic and terminal performance (England, 2000).According to Directorate of personnel management training manual (2005), performance contracts should focus on two levels: For state corporations, the first level is between the government and the Board of Directors. Generally, Boards of Directors and management of public enterprises bind themselves to the achievement of mutually agreed targets, in return for operating autonomy and specified rewards. The second level is between the Board of Directors and the Chief Executive: since the Board is not in charge of routine management of the corporation, it assigns its responsibility assumed in the contract with Government through signing of a performance contract with the Chief Executive. For the civil service, the first level contract is signed between the president and the Ministers. Then the contract is signed between the Head of Public Service and the permanent secretaries with the respective

ministers counter- signing. Performance based contracting has been identified by both the private and public sectors as an effective way of providing and acquiring quality goods and services within available budgetary resources (Mapelu 2005, NPR 1997). Whereas within the private sector, profit orientation and competitiveness have necessitated the introduction of performance contracts, the public sector has taken long to embrace the practice, especially in the developing countries (Shirley 1998: NPR 1997).

The Concept of Perception

A critical factor that can influence the success of performance contracting is how employees perceive it. Cole (1997) defines employees as individuals who, over a given time, invest a large proportion of their lives in their organizations. Unlike other resources in an organization, employees are complex beings, who are influenced by and can act on, the basis of their perception. Mullins (1999) defines perception as the mental function of giving significance to stimuli such as feelings, shape etc. Bennet (1997) defines perception as a process in which one interprets sensory inputs such as sight, sound, smell or feelings. Different people may physically see the same thing but they may have their own individual interpretation of what it is. Employee perception in an organization is crucial to its success since the driving force behind the success, or otherwise of any business rests on its employees. Perception is influenced by intelligence, personality, expectations, motivation and interest (Bennett, 1997: Mullins, 1999). Perceptions are developed over time and can change as new information and experiences are acquired. Our brain attempts to make sense out of the stimuli to which we are exposed. Kotler (2000) defines perception as the process by which individuals select, organize and interpret information inputs to create a meaningful picture of the world. He further states that, a motivated person is ready to act. How the motivated person acts is influenced by his or her perception of the situation.

Employees develop a set of filters through which they make sense of the conditions surrounding their work place. Kelly (1955) calls these “personal constructs” which channel the way employees conceptualize and anticipate events. Thus employees will most likely have expectations (perceptions) of the organizational strategic plan even before it is implemented. They will also have expectations on how management should address issues affecting them. If these perceived expectations are not met, then discontent results and may lead to workers quitting. Perception differs from one individual to another (Martin, 1988) this means that employees will perceive issues differently and will have different expectations from their employers. Some will be concerned with career development, others on salary and fringe benefits, while some may perceive organizational policies as draconian and so forth. This calls for employers to be aware of these differences among employees and try to come up with a mechanism which will to address the dynamism of employees in terms of motivational programs, policies, communication channels and so forth, so as to meet the employees’ expectations. Perception is influenced by intelligence, personality, expectations, motivation and interest (Bennett 1997: Mullins 1999). Perceptions are developed over time and can change as new information and experiences are acquired.

Employee Perception

Being strategic about human resources is about developing a capability to mix the soft with the hard human resource management to choose situational appropriate rather than personally preferred approaches to human resource management, as the business requires (Storey 1996). He defines softer approaches as including adaptive strategy, cultural change and continuous improvement. Whereas harder approaches are rational strategy, structural changes, radical transformation command and control. He further observes that it is in those corporations where executives “think people” and where human resource professionals “think business” that a fluidity of relationship and synergy of thinking develops. Perception can be defined as the process of receiving, organizing and assigning meaning to information or stimuli detected by our five senses. It is an approximation of reality. Our brain attempts to make sense out of the stimuli to which we are exposed. What we perceive is the meaning we give to something sensed (Kotler, 2000). Information processing is a series of activities by which stimuli are transformed into information and stored (Hawkins et al, 1992). The processing of information has four major steps: exposure, attention, interpretation, and memory. The four steps suggest a linear flow from exposure to memory. However, these processes occur virtually simultaneously and are clearly interactive. That is our memory influences the information we are exposed to, attend to, and the interpretations we assign. At the same time, memory itself is being shaped by the information it is receiving (Hawkins et al, 1992). First impressions are lasting and it is therefore important to introduce a new regulation after it has been thoroughly discussed with all the employees. Some of the factors that may distort perception as given by Schiffmann and Kannuk (2005) are, jumping to conclusions, halo affect, anchoring and adjustment, attribution theory, and availability bias. In the mid-1960s, (Cole, 1997) advocated the view that an individual’s behaviour is formed on the perception of what they consider to be the reality (Cole, 1996). This theory stresses the importance of perceptions in the motivation process. It alludes that individuals act on the basis of how they perceive situations. Individual effort and productivity is determined by the perception of the situation (Cole, 1997).

Measurement of Perception

In human behaviour, perception research has been used to study a wide range of strategic issues. A strategic issue is a forthcoming development, either inside or outside of the organization, which is likely to have an impact on the ability of the enterprise to meet its objectives. Ansoff and McDonnell (1990) refer to the analysis of impact and response to significant development in the environment as strategic issue analysis. A variety of techniques have been devised to measure perception. Njuguna (2000) used similar techniques to study attitudes of customers towards electricity efficiency. One of the commonly used scaling techniques is Likert Scale which was developed by Likert in 1932. Usually, the individual is asked not only if they agree or disagree to the statement, but also to indicate the extent to which they agree by choosing one of the following five categories: Strongly agree; Agree; Neutral/Don’t know; Disagree and Strongly disagree. This

produces a numerical score and a value is given to each category. Semantic differential scale is another technique that was developed by Osgood et al in 1957. It comprises a number of semantic scales based on bipolar objectives (e.g. good/bad, hot/cold, etc.). The respondents are asked to rate a concept in terms of a positioning between +3 and -3. Proponents of the technique identified three main clusters of similar scales, which they labeled: Evaluation, Potency and Activity. This accounted for nearly 50% of the total “meaning” of the concept – irrespective of the concept, the adjectives used or the respondents interviewed, (Williams, 1997). Guttman’s Scalogram Analysis is another technique which was designed by Sociologist Louis Guttman in 1950. It aims at determining the underlying order within a series of questions by means of obtaining dichotomous responses i.e. the respondent is required to answer ‘Yes’ or ‘No’ to each question. Scalogram Analysis is a very useful technique for examining small shifts or change in perceptions and while such scales do not have equal appearing intervals, they are generally reliable (Williams, 1997). Thurstone Scale Technique is another technique which was designed in 1929. It requires the collection of as many statements as possible about the issue towards which perceptions are to be measured. These statements must be simple and unambiguous and must distinguish between different perceptions that employees may hold towards the issue. This study however, applied the technique of Likert Scale and Guttman’s Scalogram in trying to ascertain the various perceptions that exist among employees towards strategic plan and the performance contract of public corporation.

State Corporations in Kenya

Public Corporation is created by some higher controlling authority. The authority is usually composed of multiple and competing interests. Once the Public corporation has been created its mission and objectives are still defined by the controlling authority on which it is dependent for its resources. According to Rider (1987) decision making in public sector settings is a political process. In such a situation, decisions are typically not purely rational but rather incremental and adaptive and predetermined by interactions of political influence and sudden changes in the environment. He further argues that strategic planning has to be accomplished in a pluralistic environment where power is distributed among many and varied interest groups. Despite the fact that public corporations are created to ensure effective and efficient delivery of essential services, majority have been mismanaged and some have resulted to closure like the Kenya Meat Commission, the Nyayo Bus Corporation, among others. Organizations today face turbulent and rapid changing external conditions that are translated into a complex, multifaceted, fluid and interlinked stream of initiatives. These are affecting work and organizational design, resource allocation, systems and procedures in a continuous attempt to improve performance (Huczynski and Buchanan, 2001). With these environmental changes the public sector has come under intense pressure to improve their operations and processes so as to reduce its reliance on exchequer funding. Also to increase transparency in operations and utilization of public resources, increase accountability for results and to deliver products and services more efficiently and at affordable

prices to the tax payer/ customer. Thereby, forcing governments to institute reforms in the public sector (NPR 1997). The government of Kenya recognized the need to enhance efficient service delivery through the policy paper on Economic Recovery Strategy for Wealth and Employment Creation (2003 – 2007) which envisaged efficient services delivery by state corporations as a basic necessity to growth and development. This policy argues that in order to improve performance, corporate governance and management of state enterprises, performance contracts should be introduced in state enterprises. The objectives of the policy were to improve service delivery to the public by ensuring that top-level managers are accountable for results: improve efficiency and ensure resources are focused on attainment of key national policy priorities, institutionalize performance – oriented culture in the public service: measure and evaluate performance: link reward and sanctions to measurable performance: reduce or eliminate reliance on exchequer funding or government agencies which should generate revenues or make profit: and enhance performance of loss making government agencies (GOK 2005 b).

Statement of the Problem

State Corporations have been criticized for inefficiencies and mismanagement. There has been poor and declining performance which in turn inhibits realization of sustainable economic growth. They are characterized by widespread misuse of funds due to lack of proper internal management and control. Some of these criticisms are supported by studies carried out (Aharoni, 1986: Berg, 1981: Nellis, 1986: Shirley, 1983). The government of Kenya, recognizing the need to improve the performance of public enterprises, introduced performance contracting in the public sector. In May 2004, the government selected sixteen (16) state corporations to pilot the process of performance contracting. Employee perception of performance contracting is an emerging key determinant of the success of the government's economic recovery strategy for wealth and employment creation (2003 – 2007). Employees can be indifferent to what is required of them by the organization, based on their own interpretation of what is happening. This can result in behavioural patterns that are inconsistent with the desired objectives of the organization. In as much as employee perception is important to the success or otherwise of any business, little research has been done on them. Gichira (2001) conducted a survey on employee performance management systems in the privately owned security services, industry in Kenya which did not address performance contracting, Odadi (2002) did a study on the process and experience of implementing a new performance measurement tool but restricted it to the balanced score card only. Studies on perception done by Mokaya (2003), Mwandikwa (2003), Ngesa (1989), Kandie (2002), Opero (2002), Nyaoga (2003) and Sossion (2003) were on service industries mainly in banks and concentrated on consumer perception. Ng'ang'a (2004) looked at the employee perception of strategies with special reference to Kengen. As can be seen, none of the studies so far has researched on employee perception of performance contracting in public corporations. A knowledge gap therefore exists regarding employee perception of performance contracting in state corporations.

Literature Review

The Concept of Performance Contracting

In Kenya, performance contracting concept can be traced to early and mid- 1990's when a few state corporations namely Kenya Railways, National Cereals and Produce Board, Kenya Airways, Mumias Sugar Company and the defunct Kenya Posts and Telecommunications attempted to develop variants of performance contracts. Most of these were not implemented and those that were implemented were found unsuccessful. A new approach to the performance contracting concept in line with the objectives of Economic Recovery Strategy for Wealth and Employment Creation. (2003 – 2007) was initiated with selected public enterprises on a pilot basis from October 2004 – See Appendix 3. The government of Kenya started sensitizing the public sector corporations on the concept of performance contracting using the performance contracting sensitization manual (GOK 2005 a). It developed an information booklet on performance contracts (GOK 2005 b) to guide on the process of performance contracting. Performance contracts have their origins in the perception that the performance of the public sector has consistently fallen below the expectations of the public (OECD 1999). Performance contracting is part of broader public sector reforms aimed at improving efficiency and effectiveness in the management of the public service. Governments are increasingly faced with the challenge to do things better, with fewer resources and above all improve on service delivery. An enabling legislation was enacted in August, 2004 through Legal Notice No. 93 namely the State Corporations (Performance Contracting Regulations, 2004) to give the legal framework for implementation of performance contracts in state corporations. A widely quoted view of performance contracts is that, it is a freely negotiated performance agreement between governments as owners of a public enterprise, and the enterprise itself. It clearly specifies their mutual performance obligations, intentions and responsibilities (Nellis 1989). However, strategic planning and management are vital to the success of performance contracting.

According to Shirley and Xu (1997), performance contracting is a devolved management style which emphasizes management by outcome rather than management by processes. It provides a range of management instruments used within the public sector to define responsibilities and expectations between parties to achieve mutually agreed results. Shirley M. and Xu, C.L (2000) advances the view that performance contracting organizes and defines tasks so that management can perform them systematically, purposefully, and with reasonable probability of accomplishment. A performance contract addresses economic, social, or other tasks that an enterprise has to discharge for economic performance or for other desired results (OECD 1999). According to OECD (1999), a performance contract basically comprises two major components namely: determination of mutually agreed performance targets and the review and evaluation of periodic and terminal performance. Shirley and Xu (1997) argue that performance contracting assumes that government's objectives can be maximized, and performance improved, by setting targets that take into account the constraints placed on employees. For this to occur though, they

argue that the governments must be willing to explicitly state their objectives, assign to them priorities and weights, translate them into performance improvement targets, provide incentives to meet those targets (or monitor the enterprises without incurring significant costs), and credibly signal their commitment to the contract. The concept of performance contracting varies from country to country. The widely accepted rationale for performance contracting in public enterprises is that they have multiple objectives and multiple principals. Performance contracts, it is argued, would provide the public enterprises with a management technique to manage these and therefore remedy the situation (GOK 2005 b). The growing popularity towards performance contracting can be traced to the strong persuasive influence from bilateral enterprises that advocate the use of this concept as an important element of public enterprise sector reforms (OECD 1999). Performance contracting has been widely used in the public sector by the developed countries such as France, the Netherlands and New Zealand among others with marked success. The experiences in developing countries though, citing case studies in China, India, Morocco, South Africa, Cote D' Ivore, and Gambia among others, have shown mixed results (Shirley 1998: Shirley and Xu 2001: Mapelu 2005: Trivedi 2004). OECD (1999) further observes that public enterprises may pursue certain social and non-commercial goals affecting its financial status, which the performance contract would clarify early with the principal. For public enterprises making losses, performance contract may have tools which may indicate effort put and success achieved by the management in improving its operations. Performance contracts may also include mechanism to smoothen the public enterprise-government interface and increase the autonomy of the enterprise. The performance contract may also act as an alternative to privatization of public enterprises which are financially viable. In essence therefore, performance contracts seek to privatize the public sector style of management, without necessarily transferring the ownership of the assets to private ownership (Daily Nation, 22nd March, 2005).

Types of Performance Contracts

Mann (1995), Christensen and Yoshimi (2003), Tivedi (2005 and GOK (2005 a) observe that there are generically two types of performance contracts namely: The French system and the signaling system. The French based system of performance contract entails identification and agreement on performance criteria at the beginning of the year and the eventual evaluation at the end of the year. The system however, does not allocate weights to targets. There is no distinction between targets in terms of emphasis (by weighing them differently) and as such performance evaluation is affected by a high degree of subjectivity. This system is practiced in France, China, Ivory Coast, Benin and the United Kingdom. The signaling system is based on the determination of how efficiently management can utilize a given level of capital stock. The system aims at motivating management to maximize return on capital. A primary criterion of evaluation is developed to determine improvement in productivity and the level of increase in public profitability (as opposed to privately relevant profit). A performance contract is signed at the beginning of the year and evaluated at the end of the year. The signaling system is based on the premise that public enterprise

management should be appropriately guided to aim at improving real productivity and its effort should be acknowledged and rewarded by an incentive system. The signaling system is practiced in Pakistan, Korea, Philippines, India, Bolivia and Gambia. The type of performance contract adopted by Kenya is the signaling system where the efficiency for management's use of resources is being evaluated.

Fundamental Preconditions for Performance Contracts

OECD (1999) notes that performance contracting regime is not a substitute for overall performance management as it is merely but one element of a performance framework for generating desired behaviours in the context of devolved management structures which is part of an overall resource allocation system. A comparative analysis of international experiences by the United Nations, supports this view by adding that the differences in design and implementation of performance contracting and associated government policies in force in particular countries are the major factors of the success or failure of performance contracts. It concludes that each country has its own unique legal, institutional and cultural environment hence needs to customize its approach to its own needs and circumstances. PBMSIG (1999) argues for a structured approach as is used in the U.S, which focuses on strategic performance objectives: provides a mechanism for accurate reporting: bring all stakeholders into planning and evaluation of performance: provide a mechanism for linking performance to budget expenditures: provide a framework for accountability: and share responsibility for performance improvement. They suggest a six-step process that includes establishing a successful program which include the definition of an original vision, mission and strategic objectives: establishment of a integrated performance measurement system: establishment of a process/system for collecting performance data: one for analyzing, receiving and reporting performance data: and one for using performance to drive performance improvement. GOK (2005 a), OECD (1999), Trivedi (2004) and Mann (1995) advance the view that performance contract should consist among other systems, a performance criteria. A performance criterion is a quantifiable expression of the enterprise's objectives. It is the attribute that constitutes the object or focus of measurement, for example, efficiency. It is the basis against which performance is measured. Performance criteria should be simple, measurable and monitorable. It should be fair to the country and to the manager. There should not be too man criteria in a performance contract.

There should be institutional preconditions i.e. performance targets should be negotiated and not imposed arbitrarily from the top government. Once the performance targets have been set, public enterprise managers must be left free to manage the enterprise within the agreed parameters. Performance should be judged at the end of the year systematically against the targets negotiated at the beginning of the year. In order to carry out performance evaluation, there is need to have balance in availability of information between the evaluator and then evaluate. Performance should be linked to a system of incentives for good performance, and sanctions for poor performance. Operational criteria are of great importance to the organization. It focuses on the

effectiveness and efficiency with which an organization achieves its core activities. This may entail use of such indicators as output, capacity utilization, and total assets turnover and project completion rate. There is however no step-by-step approach or process cited in literature to be followed by public sector companies in developing countries. PBMSIG (2001), NPR (1999) and OECD (1999) however cite the following dimensions as major components of an integrated performance system whose inclusion would result in success in the implementation of any performance systems. These include leadership in championing the cause: existence of a constantly strategic plan with clear organization objectives: a conceptual framework to enable the organization to focus its measures: commitment by everyone since the degree of commitment will determine the degree of success: involvement of all stakeholders, customers and employees both by the level and timing of employee involvement individually tailored depending on size and structure of the organization: creation of a sense of urgency to move to a new and enhanced performance measurement and management regime: communication: ongoing feedback process to make adjustments and keep it operating efficiently: adequate resources in terms of money equipment and people: customer identification: learning and growth to keep the organization in pace with the emerging technologies and trends: environmental scanning of both the external and internal environments: enhanced organizational capacity centered on people and processes in ensuring that inefficient and ineffective processes do not get in the way of the drive to success: and institutionalized accountability for performance and measures with focus on results.

Performance Contracting and Structure

The purpose of a structure is the division of labour in the organization and its coordination to attain company objectives. Mullins (1999) defines an organizational structure as the pattern of relationships among positions within an organization and within its members. It creates a framework of order and command through which activities of the organization are executed. It is the totality of ways in which an organization divides its labour into distinct tasks and then achieves co-ordination between them (Mintzberg, 1979, Cole 1996). What many organizations fail to realize, especially in Kenya, is that structure has a human side to it. It does affect productivity and economic efficiency, morale and job satisfaction, depending on the individual perception of the structure. The current trend in organizational design is therefore towards increased participation by employees at all levels, greater freedom of the individual, and more flexibility. Formal, bureaucratic structures continue to receive criticism as they tend to restrict individual growth and fulfillment and result in frustration and conflict (Mullins, 1999). Consequently, the organizational structure needs to be viewed as part and parcel of a firm's internal capability. It is more than just a chart. It determines the decision-making hierarchy, delegation of responsibilities, communication channels, formal relationships, leadership roles and criteria for incentive systems. Due to increased use of computer based systems for information and decision support, there has been a shift towards more flat organizational structures and decentralization. This is exhibited by very few authority levels, reduced executive overload, a wide span of control and flexibility in

decision-making. This leads to increased staff motivation, especially at lower levels of management. It also affords top management more time for strategic responsibilities, their real core function.

Organizational Leadership

The business environment has become extremely competitive and turbulent, both at the national and international level. As customers are given more choices, they continue to demand more and more value for money. In such circumstances, only flexibility can assist an organization to stay tuned to the market. Leadership is about adapting the organization to change. It is also about galvanizing commitment and influencing people as well as stakeholders to embrace change. Employees need to 'live' with the firm's vision in their daily activities (Mitchell, 2002). Leaders influence commitment to change through clarifying the firm's strategic intent and shaping corporate culture. Porter (1996) in Thompson et al (1998) sees this being done by leader through 'defining and communicating the company's unique position, making trade-offs, and forging fit among activities'. Kotter (1998) argues that leadership inevitably may entail the use of power to influence the thoughts and actions of other people. Pearce and Robinson (2000) have operationalized leadership to mean building the organization and influencing its future course of action by ensuring a common understanding about the organization's priorities. It also entails clarifying responsibilities among employees and organizational units, empowering employees, pushing authority lower in the organization and uncovering/remediating problems in co-ordination and communication. Leadership also entails gaining personal commitment to a shared vision from everyone in the organization and keeping a close tab on what is happening in the organization and its customers. In the day-to-day course of business, leadership involves creating teams and processes to coordinate, intergrate and share information on what the organization is doing, or intends to do.

As a result, leadership selection and development should be a major preoccupation of any business. Thus, at the heart of leadership is the ability to get people to do things willingly or to influence them on a given course of action. This relates to behaviour or actions of others. It is therefore hard to discuss leadership without discussing motivation, interpersonal relationships and the process of communication. A leader's effectiveness is enhanced by reduction of employee dissatisfaction, effective delegation and empowerment. Since these are not static at any given point, it follows therefore that leadership, as a process, is dynamic. Johnson and Scholes (2002) go a step further to advance the view that a leader is not necessarily someone at the top of an organization. Rather, it is someone who is in a position to influence an organization (or group within an organization) in its efforts towards achieving a given objective. Perhaps if there were to be a leadership mantra, it must be inspiration. This involves communication in the organization, motivation, encouraging and involving people in the activities of the firm. Leadership calls for abilities to deal with ambiguity, to demonstrate flexibility, insight and sensitivity to context (Johnson and Scholes, 2002). In the latter author's view, successful leaders tend to have excellent visionary capacity,

excellent team building and team participation skills, capacity for self-analysis and learning, ability to cope with complexity, self-initiative and confidence, ability to simplify complex issues and being able to create commitment and directing employees' energy.

Corporate Culture

Implementation of a new way of doing things can be constrained by the culture of the organization. This arises from the human inertia to shift from what one is accustomed to i.e. (the comfort zone). It also arises from fear of the unknown and the reluctance to accept that what one is doing may need improvement. Johnson and Scholes (2002) argue that people will tend to hold onto existing ways of doing things and to what they believe makes sense. But in their seminal work on the relationship between corporate culture and performance, Kotter and Heskett (1992) posed the view that implementation of new reforms can be constrained by an incompatible culture. The corporate culture of an organization represents the shared values, beliefs and traditions of the firm. Barnett and Wilsted (1989) advance the case that the business priorities of an organization have a great role to play in shaping the culture of the firm. Organizations may have priorities geared towards survival, growth or profit maximization. Public enterprises tend to develop a *laissez-faire* culture depending on the political environment. At an individual level, culture may be shaped by the notion of what is important in one's life. For instance this could be with money, or just fulfilling professional work. Culture can therefore exert a powerful effect on individuals and on performance, especially in a competitive environment (Kotter and Heskett, 1992). Immelt (2003) stresses the need for culture to be performance oriented. This is corroborated by Peters and Waterman (1982) who found a link between corporate culture and a firm's performance. Corporate culture develops over time depending on the firm's history, management style, location, goals and objectives, and the reason for its existence. For instance, in a competitive environment, a culture of adaptability evolves if the firm is to survive in the long-term.

This type of culture may lack in some state-owned enterprises, as the operational agenda may be tilted towards satisfying social and, in some case, political needs. Culture is crucial in creating a climate that motivates people and make them work willingly and effectively in the organization. Burnes (2000) gives the example of Japanese companies, which have a reputation being group/team oriented, autonomous and able to achieve high levels of motivation, initiative and creativity in problem-solving skills. Mullins (1999) contends that if the organizational climate is to be improved, it must be seen to function democratically and must pay particular attention to integration of organizational and individual goals, opportunities for employee participation in formulating the direction of the organization and equitable employee policies and practices. There needs also to exist mutual trust, consideration and support at all levels, open discussion of conflict, managerial behaviour and styles of leadership appropriate to work situations, and equitable systems of reward. To address intrinsic needs, it is necessary to have opportunities for personal development and career progression, concern for quality working life, appreciation of people's

needs and expectations at work and a sense of dignity for each member. But this needs to be balanced by a performance-oriented culture.

Performance Management and Measurement

Performance management, is a management process designed to link the organization's objectives with those of individuals, in such a way as to ensure that both individual and Corporate objectives are as far as possible, met. Armstrong (1999) defines performance management as a strategic and integrated approach to delivering sustained success to organizations by improving the performance of the people who work in them and by developing the capabilities of teams and individual contributors. It has been stated, with reasonable justification, that human capital is the most important resource in any organization (Immelt, 2003). The relationship between the employer and the employee involves exchange of skills and experience for reward in salaries or wages. Armstrong (2001) advances the view that principal aim of performance management should be to support the attainment of the organization's strategic objectives by ensuring the availability of a skilled, competent, committed and well-motivated work force. Business performance is measured from different perspectives due to the understanding of performance by the different disciplines. Measuring business performance is therefore beset by the challenge of defining the selected measures that can drive performance (NPR 1999). Performance measurements systems succeed only when the organization's strategy and performance measures are in alignment. On realization that different models fall short in some dimensions NPR (1999) attempted to provide a conceptual framework for organizing performance measurement system, which could include use of balanced set of measures, matrix systems, target settings, bench marking and National Quality Award Criteria. Batitci et al (2005) further notes that it is generally agreed that businesses perform better if they are managed through formalized, balanced and integrated performance measures. Kanj (2002) also observes that measuring performance by reference to a generic and universal model has the additional benefits of allowing comparisons to be made within different segments of the organization, among different organizations and also across different industries/sectors and countries. Accountability for performance is a critical factor in any successful performance measurement criteria. PBMSIG (2001) cites the inconsistent application of policies, procedures, resources, and/ or consequences within the organization as undermining the accountability environment by weakening the perceived organizational commitment and credibility. They cite the key requirements for successful establishment of an accountability environment as leadership, reciprocation, equity, trust, transparency, clarity, balance, ownership, consequences, consistency, and follow up. They note that the main barriers include hidden agendas, favoritism, lack of resources, and lack of follow-through, lack of clarity and data misuse.

Challenges of State Corporations

There appears to be quite a sizeable number of reforms in the public sector, wherein state corporations are not corporations unless they develop a strategic plan for intended future

operations. The intention is to improve productivity in service delivery through the injection of the somewhat “new” (but actually as old as the Druckerian) Management by objectives, now dubbed “Strategic Management System”. The introduction of performance contracting provision which implies that a worker, whether on permanent and pensionable terms of service could render their employment terminated if performance did not match the planned performance targets. To improve on the past, one must also suggest that the new system will stall unless every person or groups assigned with responsibility for specific tasks or programs will be allocated adequate resources in terms of financial, personnel, time, goodwill and technological support to obviate situations where workers might attribute failure to lack of such resources. However, the problem of poor performance is largely attributable to the frequent political interference, poor management, excessive regulations and control, multiplicity of principles and bloated staff establishment. The commonality of issues that led to the adoption of performance contracting concept in state corporations include; need to improve performance, need for greater transparency and accountability, need to improve productivity, need to reduce or eliminate reliance on the exchequer and need to give autonomy to the government agencies. Pressure to address the above issues has mounted on the Kenyan government from International Monetary Fund (I.M.F), World Bank, and a changed world political environment and globalization. As a consequence, performance contracting has been introduced with an aim to improve efficiency and effectiveness in the management of the Public service. The role of the government is therefore transforming towards providing an enabling policy environment and maintaining essential infrastructure.

Research Methodology

Research Design

This study was a descriptive survey intended to establish the perception of employees towards the performance contracting in the state-owned corporations. Cooper and Schindler (2003) observes that descriptive studies are concerned with finding out the What, Where, Who and How of a phenomenon which is the focus of this study.

Population of Study

According to the Directorate of personnel management report of 31st March 2006, the number of employees in the (94) state corporations is 86, 878. The population of interest consisted of the corporate level executives, senior management and middle level management. These were drawn from the (16) state Corporations that were selected by the government to pilot the process of performance contracting (Appendix 3). The criteria that the government used to select the (16) corporation was; representation of the diverse sectors of the economy, corporations whose performance has immediate, visible and widespread impact on the economy and corporations with corporate (strategic) plans in place. The researcher targeted the managers in the sixteen (16) corporations because performance contracting has been implemented in these corporations, while implementation in other corporation was still ongoing.

Sample Size and Sample Design

The sample size was 160 managers. 10 from each of the sixteen state corporations that piloted performance contracting. The study used non-random convenient sampling; where, for each of the sixteen corporations, 10 questionnaires were given to the Human Resource Managers who distributed to various managers in different departments.

Data Collection Method

Primary data was collected using a structured questionnaire consisting both open and closed-ended questions. The questionnaires were circulated to the respondents using the “drop and pick later” method. For all the employees outside of Nairobi, a letter of introduction detailing the objectives of the research and a questionnaire was sent.

Data Analysis

The data was analyzed and summarized using descriptive statistics. This involved the use of frequency tables, percentages, mean scores and standard deviations. Section A of the questionnaire was analyzed using frequency distribution and percentages. Data in section B was analyzed using mean score and standard deviation to determine the extent of awareness of performance contracting by the respondents and their perception of performance contracting.

Results

Critical Issues in the Adoption and Success of Performance Contracting

Respondents were asked to indicate the extent to which they perceive the performance contract adopted by state corporations. They were presented with a 5-point likert scale which was used as the basis for measurement, where 5 represented the highest (best) level of positive sentiment and 1 represented the highest level of negative sentiment. The indicators of performance contracting are ranked here under based on the calculated mean score of respondents on each item. The indicators demonstrate the respondents expectations from the performance contract based on how critical they consider each issue to be in the adoption of performance contracting.

Table 1: Critical Issues in the Adoption and Success of Performance Contracting

Indicators	Mean Score	Standard Deviation
Expressing the direction and purpose of the organization	4.8	0.4
Having salary and incentives that attract, retain and motivate	4.79	0.45
Training and development of employees	4.71	0.46
Senior Management Commitment	4.7	0.55
Simple and clear vision and mission statements of the organization	4.61	0.52
Few levels of authority	3.86	0.87
Encouraging personal initiative (risk-taking rather than risk avoidance)	3.81	1.04
Having a right to question an issue	3.8	0.99
Accepting mistakes/tolerating failure		
Ability to outsource non-core activities (Contracting some services)	3.6	0.97

The findings indicate that the five topmost issues that managers expect a performance contract to address are: expressing the direction and purpose of the company, having salary and incentives that are attractive, training and development, senior management commitment and a simple and clear vision and mission statements of the company. The issues that are viewed to be of lesser significance include: accepting mistakes/tolerating failure, having a right to question any issue, encouraging personal initiative and few levels of authority in the organization and ability to outsource non-core activities. The majority of employees seem to rate out-sourcing of services

lowly, perhaps because of a perception that it may risk their job security. However, none of the issues under measurement had a mean score of less than 3.6 (out of 5); suggesting that all factors were considered to be important by managers. The poor rating of outsourcing non-core activities is consistent with the human reaction to change; destabilizing the status quo threatens existing corporate culture and power positions. Contrary to contemporary management thinking, the respondents rated some aspects that would enhance innovation, encourage efficiency and reduce bureaucracy as less critical in a performance contracting. These include having few levels of authority, encouraging personal initiative, right to question issues and tolerating mistakes. These attributes are perhaps perceived by managers as being of low importance in a public sector setting where individual effort and initiative can at times take back stage due to corporate strategies that are imposed on an organization.

Rating of Performance Contracting

Respondents were requested to rate their perception of how performance contracting has met their expectations on various aspects. The mean score on each indicator were then calculated. The ranking is tabulated in Table 2.

Table 2: Rating of Performance Contracting

Indicator	Performance	Standard Deviation
Simple and clear vision and mission statement on the organization	3.97	1.05
Embracing emerging issues and technology (e.g. IT Systems)	3.83	1.05
Expressing the direction and purpose of the company	3.74	1.2
Senior Management Commitment	3.46	1.11
Provision of adequate budget for the planned activities	3.4	1.29
Developing shared values and culture among managers	3.04	1.04

Accepting mistakes/tolerating failure	3.03	1.06
Allowing some specific time to discuss the performance Contracting	2.91	1.15
Having a right to question any issue	2.8	1.2

The five areas of the performance contracting that were perceived to be meeting expectations by a high degree were clarity of vision and mission statements, embracing emerging issues and technology, expressing the direction and purpose of the company, senior management commitment and provision of an adequate budget. The performance contracting was perceived not to be doing well on right to question issues, allowing a specific time to discuss it, tolerating mistakes, and development of shared culture and values amongst managers. In the majority of issues, the performance contracting was rated as “satisfactory”, with mean scores being more close to 3 (out of 5). There was no issue where it was perceived to be “excellent”. This notwithstanding, there is scope and opportunity for improvement by incorporating a wider section of managers to internalize and own the performance contracts.

Performance of performance contracting

The respondents were to rate how performance contracting had performed in their organizations.

Table 3: Performance of performance contracting

Indicators	Mean Score	Std Deviation
That as a result of performance contracting, the organization has developed a reasonable sense of direction	3.07	1.18
A conviction that business cannot operate successfully without performance contracting	2.93	1.30
Performance targets and measures kept in pace with emerging technologies and trends	2.67	1.12

To a moderate extent as a result of performance contracting, the organization has developed a reasonable sense of direction (3.07), a conviction that business cannot operate successfully without performance contracting (2.93), performance targets and measures kept in pace with emerging

technologies and trends (2.67). The finding that “as a result of performance contracting, the organization has developed a reasonable sense of direction” ranked at the top of the table is consistent with the view that the fundamental role of performance contract in an organization is to provide direction (Hamel and Prahalad, 1994). Other aspects related to this strategic dimension were also rated with high importance, including senior management, commitment, empowering of employees in their jobs and shared values and culture. The performance contract was perceived not to be doing well on right to question issues and allowing a specific time to discuss it.

Discussion

Performance contracting is part of broader public sector reforms aimed at improving efficiency and effectiveness in the management of the public service. Governments are increasingly faced with the challenge to do things better, with fewer resources and above all improve on service delivery. An enabling legislation was enacted in August, 2004 through Legal Notice No. 93 namely the State Corporations (Performance Contracting Regulations, 2004) to give the legal framework for implementation of performance contracts in state corporations. The objectives of this study were to establish management’s level of awareness and perception of the performance contracts adopted by the state corporations. The respondents were aware of performance contracting, they mainly learnt of performance contracting from their organizations, the government, other employees, newspapers and magazines, television and radio. Majority of the respondents who had read the performance contract signed by their organizations, formed an opinion on the same and indicated the sections/ provisions of the contract they were not satisfied with.

The study established that there was a significant perception gap between employee expectations and perceived performance of the strategy in all indicators measure. This gap arises from more than just random sampling fluctuations alone; it is a characteristic of the population under study. The five topmost issues of concern to employees were; expressing the direction and purpose of the Company, having salary and incentives that are attractive, training and development of employees, senior management commitment. Issues that were perceived of less importance were: Ability to outsource non-core activities, accepting mistakes/tolerating failure, having a right to question an issue, encouraging personal initiative and having few levels of authority in the organization. The performance contracting was perceived to be best on clarity of vision and mission statement, embracing emerging issues and technology, expressing the company purpose and direction, senior management commitment and budget adequacy. It was rated lowest on right to question issues, allowing time to discuss the plan, tolerating mistakes and employee involvement in planning activities.

Expectations arising out of strategy appear to be affected marginally by the position in the company’s hierarchy, and educational level. However, there is a declining trend in expectations the longer one has served in the Company. It is conceivable that new employees could have high

expectations depending on the corporate image of the organization in the market place. At the same time, those who have been in service for long are likely to be realistic of the firm's capabilities, based on past experiences. On the other hand, perceived performance of the performance contract increase slightly with an employee's position in the company, but is unaffected by period of service. It nevertheless rises with the level of education after the secondary school level. It is possible those with more education are in the majority higher up in the organizational hierarch and will be more informed of constraints, or otherwise, of the performance contracting.

Conclusion

Majority of the respondents had read the performance contract signed by their organizations formed an opinion on the same and indicated the sections/ provisions of the contract they were not satisfied. As a result of performance contracting, the organizations have developed a reasonable sense of direction, a conviction that business cannot operate successfully without performance contracting, performance targets and measures kept in pace with emerging technologies and trends, performance contracting acted as an effective tool for improving performance in the organization, the organization attaches much importance to performance contracts and organization's capacity to achieve its objectives has greatly improved after the introduction of performance contracts.

Recommendations

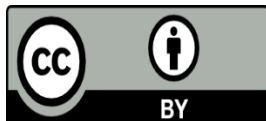
The management should increase their budget allocation to enable organizations achieve the set targets, the top management should improve communication to the staff on performance contracts, encourage personal initiatives, mutual support and trust at all levels of the organization, empowerment of employees in their jobs, creation of organizational structures that enhance openness and flexibility and senior management commitment. All employees need to be stakeholders in the future direction of the organization, even if it will be in varying degree. Their daily performance and activities should be measured along the specific milestones and core values identified by the contract, since what cannot be measured cannot be managed.

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