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CHALLENGES FACING THE IMPLEMENTATION OF PERFORMANCE CONTRACTS IN STATE CORPORATIONS IN KENYA

[1]Wesonga Justus Nyongesa, [2]Tabitha Sewe, and [3]Muya James Ng'ang'a
[1]Narok University College
P.O.Box 534-40200, Kisii, Kenya.
[2]Narok University, P.O.Box 861, Narok.
[3]Moi University.
Corresponding Author: *Wesonga Justus Nyongesa*

ABSTRACT

Performance contracts can be defined as a range of management instruments used to define responsibilities and expectations between parties to achieve mutually agreed results. Performance contracting is aimed at improving efficiency and effectiveness, service delivery to the public and reducing total costs OECD, (1995). The purpose of this study was to investigate the challenges facing the implementation of performance contracts in state corporations and in particular the sugar manufacturing industry. The specific objectives included, to establish the organizations' structure of the corporation and the levels where the P.C applies, to find out the organizational change and development brought about by PCs and effect on the employees' working styles attitude and work ethics. The purpose of this study is to be useful to the policy makers and management administrators who may use the study to design effective Human resource programs geared towards performance improvement and quality service, it will also form the basis upon which the management will plan and implement Human Resource policies and programs that would help to eliminate negative effects or positive effects of performance contracting and also form a basis for further research on the management development of state corporations by scholars and researchers. The research will be conducted specifically in Chemilli Sugar Company in Nyando District of Nyanza province. Nyando District covers an area of 1,168.4 Km2 and has five administrative divisions. The study is descriptive (both qualitative and quantitative) and data were obtained from the stake holders; the executive, line level managers, supervisors and support staff. The research instruments that were used to collect data included: questionnaires and the interview schedules. It was noted from the study 60% of the respondents were male and at the same time 60% of the respondents were married, the study also noted that performance contracts were introduced at the top level in the hierarchy of management. The study found out that the performance contracts increased the workers responsibilities, commitment and accountability and that the workers were enthusiastic about performance contracts. The study also noted that there were cases of resistance to change, some managers negotiated for easy targets than their ability. The study recommended that the company's management should try and encourage the workers who are still opposed to the issue of performance contracts on its benefits to the company**,** the company should roll out performance contracts to other levels in the hierarchy of management and the company should also move with speed and have its workers undergo training and university education, up from the tertiary level
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KEYWORDS: Performance Contracts, State Corporations, Efficiency and Effectiveness

INTRODUCTION

According to Rotter (1982), to understand behavior, one must study both the individual and the work environment. Thus, Rotter identifies the main elements that predict performance. These are Behavior Potential (BP), Expectancy (E) and Reinforcement Value (RV) which can be combined into a predictive formula for behavior: BP = f (E & RV). This can be interpreted as follows: behavior potential is a function of expectancy and reinforcement value. The likelihood of a person exhibiting a particular behavior is a function of the probability that behavior will lead to a given outcome and the desirability of that outcome. If expectancy and reinforcement value are both high, then behavior potential will be high. If either expectancy or reinforcement value is low, then behavior potential will be lower. Expectancy theory states that behavior is a function of the value of a reward and the expectancy of achieving the reward (Steinmetz & Todd, 1992, Katz and Kahn (1964)). Performance (P) is the result of the interaction of two components; force (F) and ability (A), with ability representing the potential for performing some tasks (Vroom (1964, Lawson P. 1995) Shirley, Mary, and Lixin Colin Xu. 1997,). The force to perform an act is the algebraic sum of the products of the valences of all outcomes (E) and the valence or rewards of those outcomes (V). This can be expressed symbolically as: "P = (F X A)" Yamnill & McLean, (2001).

The terms state corporations and state enterprises (also referred to as Public Enterprises) which are used interchangeably, refer to those corporations in which the government holds a large share capital (i.e over 50%) or which are controlled by and report to the state. (DPM, 2002: Meyerson D. and Martin J. (1987).

The term performance contracting can be explained to have originated in France in the late 1970s, and other countries such India, Pakistan, and Korea have adopted performance contracting since (OECD, 1997). In Africa, countries such as Nigeria, Gambia, Ghana, and Kenya have also adopted performance contracting as a strategy to optimize their human resources employed by the pubic sector (Kobia & Nura, 2006, Miller E. and Rice (1967, Obong'o Silvester, 2009). The principal reason for the adoption of the performance contracting strategy in Africa was the fact that mere employment does not necessarily mean productivity (Nyamu, 2007). In many countries in Africa, the public service has been found to have many employees whose productivity has been found to be below the standards set. As Nyamu noted "the term employment has meant being hired at a salary and with a title to some undefined something supposed to be performed in some room known as office, quite often enhanced with an official car and a driver. All these appendages to employment have militated against the spirit of service delivery to the intended clientele in favour of creating, quite unwittingly, big and small public service dictators too often unaware of their obligation to their employers. Nyamu stated further that employment in the public service must, at all times, be associated with some kind of achievement. Without that achievement, it translates to squandering public (or corporate) resources, and must logically be terminated. Thus, contract performance is motivated by the idea that individual and organizational performance occurs when employment of individuals is strictly tied to results or concrete, visible, countable, demonstrable, and desirable outcomes and benefits accruing to the customers served by these individuals (Nyamu, 2007).

In Kenya, the history of state owned corporations can be traced back to the early days of colonial rule. During this period corporations were established mainly in transport, communication and agriculture to enable the exploitation of the colonial territory.
After independence, the new government through session paper No. 10 of 1965 titled "African socialism and its Application to planning in Kenya" announced a series of policy initiators that emphasized the complimentary roles of the public and private sectors in national development. The government set out deliberate strategies for development aimed at the decolonization of, increasing indigenous participation in the economy, promoting development and regional balance and attaining greater public control of the economy. In order to speed, up the achievements of these objectives, the government established new corporations in other sectors of the economy such as commerce, industry, tourism, construction, insurance and banking. The number of commercially oriented state-owned enterprises in Kenya rose to 240 by the mid 80s. despite the confidence placed in the corporations an d even though they appeared to posses great potential as agents of national development, they have performed poorly thereby becoming a burden on the exchequer. (DPM, 2002).

STATEMENT OF THE PROBLEM

The concept of performance contract system was originated in the late 1960s by simon Nora and since then it has been adopted in modified forms in a number of countries in the world. Mehdi, 1994: Mintzeberg H. 1938)

The concept of performance contracting in Kenya can be traced to 1989. Parastatal reform Strategy paper which was approved by cabinet in 1991 was the first official recognition of the policies that were recommended to streamline and manage the performance of state corporations. The first two parastatals to be on PCs were the Kenya Railways Corporation and the National cereals and produce Board in 1989. The two PCs did not meet the performance contracting expectations. The latest PCs evaluation of state corporations in December 2006, Kenya Railways was ranked No. 56 while the National Cereals and Produce Board was ranked No. 109.

In 2003, the government made a commitment to reintroduce performance contracts as a management tool to ensure accountability for results and transparency in the management of public resources. This policy commitment is continued in the Economic Recovery established the performance contracts steering committee to spearhead the introduction and the implementation of the PCs in August, 2003 and in December, 2004, a pilot group of sixteen (16) state corporations, among them, the Chemilil sugar Company signed PCs on 1st July 2005, other state corporations and the civil service joined in. The type of PCs adopted in Kenya is the signaling system where efficiency for management's use of resources being evaluated. (DPM, 2005)
In the event that the government introduction PCs to streamline and improve performance of state

corporations we realize that there is still a problem of state corporations and the civil service not performing to expected or higher levels.

The performance evaluation process for state corporations and Civil service (Ministries /Departments) was undertaken in August – September 2006 and made public in December, 2006. The results revealed that some of them still faced the challenges of poor and even declining performance. Chemilil Sugar Company was for instance ranked 115 out of 116 corporations. It is therefore on the basis of the above premises that this study seeks to investigate and explore the challenge facing the implementation of PCs in state corporations in general and specifically Chemilil sugar company.

OBJECTIVES OF THE STUDY

i) To establish the levels where the Performance contracts applies at Chemili sugar Company Ltd.
ii) To find out the effect of performance contracts on the employees' attitudes and work performance.
iii) To identify the challenges facing implementation of performance contracts in Kenya

SIGNIFICANCE OF THE STUDY

The findings and recommendations of the study is useful to the policy makers and management administrators who may use the study to design effective Human resource programs geared towards performance improvement and quality service. This study also provides the knowledge required for the organization to understand the challenge the State Corporation has faced in implementing performance contracts. The study forms the basis upon which the management will plan and implement Human Resource policies and programs that would help to eliminate negative effects or strength positive effects of performance contracting. This will improve internal efficiency of the state corporations and help them reinvent themselves as centers of professionalism.

The recommendations also form a basis for further research on the management development of state corporations by scholars and researchers. This will lead to generation of new ideas for the betterment and more efficient management of state corporations in Kenya in particular and the rest of the world in general. This study will also add to the existing knowledge.

LIMITATIONS OF THE STUDY

The study was conducted on employees in this organization and may directly not apply to other state corporations. However, due to costs and time constraints, this is not possible. The selection of Chemilili Sugar Company limits its generalization to other state corporations. The weather condition also made travelling very difficult

MATERIALS AND METHODS

Research Design

This study adopted a cross sectional descriptive research design. A descriptive study that is cross sectional cuts across all the departments and targets the employees for issues to do with policy. According to Kothari, (1990), the major purpose of descriptive research is description of the affairs as it exists at present. Mugenda and Mugenda (1999) sighting Gay states that descriptive research is a process of collecting data in order to taste hypothesis or to answer questions concerning the current status of the subjects in the study.

Target Population

This study will used the population of Chemilil Sugar Company that consists of 1,320 permanent staff, 12 of who are the executives, 85 are managers, 170 are supervisors and 1,053 are support staff.

Sample population

Mugenda and Mugenda (1999) recommends that in descriptive studies, 10% of the survey population is represented enough to generalize characteristics being investigated. Below is a table showing the total population of the employees at chemilil Sugar Company limited and the sample size.

Table 1. Sample Size

CATEGORY	POPULATION	SAMPLE POPULATION
The executives	12	1
Managers	85	9
Supervisors and support staff	1,223	122
TOTAL	1,320	132

Source; Author 2011

The sample size will be 132 employees. Each cadre of employees, that is, the executive, manager, supervisors and support staff will be sampled to represent the characteristics of the population as follows:

Purposive sampling will be used to pick the key informants (The executive and Managers) because of the information they hold owing to their positions while stratified and simple random sampling were used to select the main respondents

Data Collection Instruments

The study used both the questionnaire and the interview schedule. A questionnaire is commonly used to obtain important information about the population. Each item in the questionnaire is developed to address a specific objective, research questions or hypothesis of the study. (Mugenda and Mugenda, 1999). The questionnaires will be delivered to the respondents by hand at their respective work stations during working hours.

An interview schedule (also referred to as personal interview) is also an important and powerful tool for collecting data. It was used to collect information from the key informants

Data Analysis

Completed questionnaires were edited for completeness and consistency. The data was then coded and checked for any errors and omissions. Qualitative data was transcribed and organized into similar topics and presented by use of table and by narration

THE FINDINGS

Level of Introduction of Performance Contract (PC)

The study sort to find out at which level the PC was introduced and the table below indicates the findings

Table 2. Level of PC

LEVEL	FREQUENCY	PERCENTAGE
Lower level	15	11%
Middle level	48	37%
Top level	69	52%

Source: Field Data 2011

From table 2 above, 52% of the respondents said that the performance contracts were introduced at the top level. But 37% indicated that it was introduced at the middle level while 11% felt that it was introduced at the lower level. It's therefore true that the PC was introduced at the top level.

The Effect of PC on Responsibilities

The table below indicates what Pc contributed in terms of the workers responsibilities

Table 3 Effect of PC on responsibilities

Effect	Percentage	Frequency
Has increased responsibilities in positions	61%	80
Has decreased responsibilities in positions	0%	0
There are no changes in responsibilities at all	39%	52

Source: Field Data 2011

From table 3 above most of the respondents felt that the PC increased responsibilities in the workers positions. They accounted for 70% while only 30% said that the performance contracts caused no changes in terms of responsibilities

The Performance Contracts Effect on Accountability

The study sort to find out whether the performance contracts affected the workers in terms of accountability as shown in the table below

Table 4. PC and Accountability

ACCOUNTABILITY	FREQUENCY	PERCENTAGE
More	75	57%
Less	57	43%

Source: Field Data 2011

From table 4 above, 57% of the respondents showed that the performance contracts increased the accountability at places of work while 43% maintained that they became less accountable even after the introduction of the performance contracts

The Challenges of Performance Contracts (PC)

The study found out a number of challenges facing the implementation of PC as indicated below:

i) The information on performance contract is scanty in that not all workers know about it. In most cases, its only the senior management that are aware due to the trainings that they undergo with the hope of passing information to the workers are the lower cadres before implementation

ii) The performance contract is not fully accepted by all workers who might be exposed negatively in terms of their poor performance by the outcomes

iii) There are those who resisted the introduction of performance contract because of lumping together different institutions in the same category yet their area of operation is in different sectors of the economy hence disadvantage others. They also held the view that different factors like the rate of labour turnover and the company's productivity affects the company performance and therefore the same factors be considered in the grading system or lumping together of institutions

iv) Another notable challenge is posed by the government having different specialist during the negotiation process and a separate team during the process of evaluation**.** These have the effect of sometimes revising the targets during evaluation in order to make them conform to policy and the new trends in the market. This ultimately alters that targets and ends up assisting some institutions improve on their overall performance.

v) The performance contract process sometimes is construed to mean better performance will attract a higher if not a better pay. After the exercise it downs on the workers that after all there is no salary increment for good performance hence reducing their morale which affects their performance in the subsequent year.

vi) Equally disturbing is the view held that poor performers will be punished. When this fails to take place, the performing institutions looses the desire to perform better for either lack of rewards and punishments.

vii) From the study it was also noted that in some organisations managers used their information advantage to negotiate targets that were either hard for the outsiders to evaluate or easy for them to achieve. This was compounded by the fact that not the companies resources and status were considered during the contracting time

CONCLUSION

The performance contracts were introduced at the company in order to make things easy. Its introduction was fully supported by the workers and it introduced an avenue where the workers and the managers sat together to set realizable objectives challenging enough for the workers. However it faced mild resistance from a section of the workers who constituted 15% of the respondents

RECOMMENDATIONS

i) The company management should ensure companywide communication is carried out to all employees about performance contracts to ensure its acceptance. This should among others include the memos, notices and the use of guest speakers to shed more light on the need for performance contracts and its origin in order to instill confidence and support

ii) The company's management should try and encourage the workers who are still opposed to the issue of performance contracts on its benefits to the company

iii) The company should roll out performance contracts to other levels in the hierarchy of management

iv) The company should move with speed and have its workers undergo training and university education, up from the tertiary level

v) The study also recommends that a level playing ground be laid out so that no group of managers will negotiate targets that will either be soft for them or hard for other evaluators by ensuring that the evaluators involved in the negotiation are the same that are used during evaluation

vi) The Government should put in place mechanisms for awarding the high performers and also punish the poor performers

vii) The study also recommends that institutions that are at the same level and are engaged in a particular identical venture be put in the same category for ease of evaluation

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