A SURVEY OF FACTORS INFLUENCING SUCCESS OF PERFORMANCE CONTRACT IMPLEMENTATION BY THE PUBLIC CORPORATIONS IN KENYA

MWANGANGI MARY K.M.

A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF REQUIREMENTS FOR THE DEGREE OF MASTER IN BUSINESS ADMINSTRATION (MBA), SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

2009

DECLARATION

This research project is my original work and has never been presented in any university or college for the award of degree or diploma or certificate.

Signature ____

Mwangangi Mary K.M

Reg. No: D61/P/8324/06

Date ____

This project has been submitted for examination with my approval as the university supervisor.

Signature ____

Prof. P. K'Obonyo

Lecturer, Dept. of Business Administartion,

School of Business

University of Nairobi

Date: ____

DEDICATION

This project is dedicated first and foremost to almighty God who has taken me this far.

I also dedicate this work to my dear husband Mr. James Mutunga, my children Victor, Clare and Claudia with lots of love for their support and understanding throughout the duration of the entire course.

I further dedicate this work to my parents, my sisters and my brother for their support.

ACKNOWLEDGEMENT

I would like to acknowledge my supervisor Professor Peter K'Obonyo for his advice and tireless efforts in supervising me during my research work and writing of this project. In deed if it were not for him I will not have been this far.

I would also like to acknowledge those who gave me the inspiration to take up this course and those who gave me guidance and assistance throughout the study period.

My gratitude also goes to the management of those state corporations who shared with me their experiences.

Whereas I acknowledge input from all these persons in the research project, I take responsibility for any deficiencies.

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ABSTRACT

Recent studies have found that the results of performance contracting so far have been “mixed”. In some countries there has been a general and sustained improvement in public enterprise performance while in other countries some public enterprises have not responded or have been prevented by government policies from responding. A World Bank study of twelve public enterprises which had been subjected to performance contracting showed that efficiency increased in three cases and remained the same or deteriorated in the other nine cases. Analysis showed that failure was attributed to lack of information, lack of incentives and lack of commitment among others.

The current study aimed to contribute to the understanding of the factors that determine the success of performance contract implementation by the state corporations in Kenya. To achieve this objective, data were collected through a survey from fifty state corporation representing different sectors which had signed performance contracts during the year 2006/2007. The corporations were picked randomly from each stratum**.** Data was collected using a structured questionnaire which was administered through e-mail and drop and pick later basis. Responses were received from thirty eight state corporations giving a 76% response.

The current study showed that 95% (21) of the factors presented were important in influencing the success of performance contract implementation. With regard to the extent to which the factors influenced the success of performance contract implementation during 2006/2007 contracting period, only eighteen factors were considered as having contributed to the success of the performance contract implementation. These factors should be fully integrated in performance management systems. Of importance is evaluation of more state corporations in the country in future to determine the effect of individual factors in performance contract implementation. Then these factors can be adopted across the board in boasting performance of public and private sector in the country.

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

African Association for Public Administration and Management (AAPAM), (2005) observed that the primary development goal for any country is to achieve broad-based, sustainable improvement in the standards of the quality of life for its citizens. The Public service plays an indispensable role in the effective delivery of public services that are key to the functioning of a state economy. When the delivery of services is constrained or becomes ineffective, it affects the quality of life of the people and nation's development process. Public services in many African countries are faced with many challenges, which constrain their delivery capacities (Lienert, 2003) as quoted by Kobia et al (2006). They include the human resource factor, relating to shortages of the manpower in terms of numbers and key competencies, lack of appropriate mindsets, and sociopsychological dispositions. There is also the perennial 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 were meant to address these challenges and they have achieved minimal results (AAPAM, 2005)

According to Organization for Economic Co-operation and Development (OCED) (2002), Public sector reforms have become a common phenomenon around the globe, especially in developing countries. These have become the way of responding to the needs of the taxpayers. One of the key priorities of the Kenya Government is to implement and institutionalize public sector reforms that would lead to an efficient, effective and ethical delivery of services to the citizens (Kobia et a l, 2006). The government started implementing public sector reforms way back in 1993 with the aim of improving service delivery. And there have been three phases in the implementation of different types of reform interventions. While there have been successes and challenges in the implementation of reforms in public service, different concepts and newer interventions have been introduced in the past. One such intervention relates to performance contracting in the state corporation and government ministries. Performance

Contracting is part of the broader public sector reforms aimed at improving efficiency and effectiveness in the management of public affairs (OCED, 1999).

The Government's commitment to improve performance, corporate governance and the management of the public service through performance contracting is outlined in the Economic Recovery Strategy for wealth and Employment Creation (2003- 2007, GOK, 2005). Further, Kenya's vision 2030 recognized performance contracting among the key strategies to strengthen public administration and service delivery. The strategies will focus on deepening the use of service charters as accountability tools and entrenching performance as a culture in the public service Government of Kenya (GOK),(2007). This study is aimed at determining factors that influences performance contract implementation by the public corporations in Kenya.

1.1.1 Performance Contracting

Different scholars have defined performance contracting differently. However, they seem to hold similar views on the contents and purpose of performance contracts. A performance contract is a management tool for measuring performance that establish operational and management autonomy between Government and public agencies, reduces quantity of controls and enhances quality of service, privatizes the style of public sector management by focusing on results and not processes and measures performance, enables recognition and reward of good performance and sanctions bad performance(GOK, 2005)

Sensitization Training Manual (GOK, 2004) defines Performance Contracting as a branch of management science referred to as Management Control Systems. A Performance contract is freely negotiated performance agreement between Government, organization and individuals on one hand and the agency itself. It is also defined as an agreement between two parties that clearly specifies their mutual performance obligations. Blasi (2002) as quoted by Langat (2006) defines performance contract as an agreement between two parties that clearly specifies their mutual performance obligations, intentions and responsibilities. It is freely negotiated performance agreement between the government acting as the owner of the government agency and the agency itself up to and including other management levels of the organization. Most commonly, performance contracts include bonuses for a job well done, salary decreases for poor performance and greater accountability.

There are three forms of performance contracting. That is financial contracting, shared savings and guaranteed savings. Under financial contracting, vendor financing is generally offered by a manufacturer who wishes to demonstrate confidence in the energy efficiency capabilities of equipment and offers to take up payment of the equipment out of avoided utility cost. In shared savings prior to the project implementation, the owner and the vendor agree on a split of the energy cost savings. If there is no cost savings the vendor does not get paid and if the energy prices go up the customer pays more than expected for use of the equipment. Guaranteed savings the vendor guarantees the energy to be saved and dollar value of savings will be sufficient to cover debt service obligation

(Shirly et al, 1998).

Performance Based Contracting offers a share-in savings contracting, revenue enhancement contracting**,** In the case of both share-in-savings contracting and revenue enhancement contracting, contractor behavior is changed to focus on the accomplishments of certain processes and outputs that lead in turn to the accomplishment of certain desired outcomes (reduced service delivery costs and increased revenues).In the case of milestone contracting, contractor behavior is changed to focus more on performance. This is because output, quality, outcome performance requirements, incentives, and penalties are automatically built. The experience of state and local governments clearly demonstrates that share-in-savings contracting, revenue enhancement contracting, and milestone contracting can affect the behavior of contractors to focus more on performance. Thus, these approaches warrant being called Performance Based Contracting says Lawrence (2002) as quoted by Jack (2004).

The Federal Acquisition Regulation (FAR) states that fixed-price contracts are generally appropriate for services that can be defined objectively and for which the risk of performance is manageable. A fixed-price contract provides for a firm pricing arrangement established at the time of contract award. With a firm, fixed-price contract, the contractor is paid a set price one that is not adjusted based on costs incurred while performing the contract. Specifically, there is now an order of precedence for performance-based contracts that are firm, fixed-price. Any other type of performance-based contract such as a cost-reimbursement type where the contractor is paid based on allowable incurred costs plus a fee and then any contract that is not performance-based. 3 Generally, with cost-reimbursement contracts (GAO, 2002).

1.1.2 Factors influencing success of implementation of performance contracts in the public sector

The performance orientation or management by results reform can be treated either as a micro, meso, or macro level phenomenon. At macro level, it reflects the changes in the ways of managing the public sector as a whole (Lumijärvi et al., 1997). It is a tool for system governance than a single managerial control or guidance tool. Horizontally, it covers not only public sector itself but also the transactions between the public sector, markets and citizens. At the meso level, performance contracts refer to the steering and guidance relationship between the ministries and their subordinate agencies. Thus, it serves as a specific coordination and agreement mechanism by which the ministries aim at ensuring that their subordinate agencies and state institutions operate as efficiently and effectively as possible ((Petri Uusikylä and Petri Virtanen, 1998).

At the micro level, management by results or performance management can be treated as an intra-organisational steering system of the public agencies. It means setting result targets and a daily management model which utilizes the objective result evaluation system. In this model, the top level aim at directing resources to strategically important targets and getting their personnel to commit themselves to achieving the result targets (Lumijärvi et al., 1997, 12). Performance contracts can be directly applied to the meso and micro levels. At the meso level, a contract is typically made between a ministry and its subordinate agency. The contract is considered to be a control measure for the implementation of state policies. It aims at reducing the problems between the principal and agent by building a mutual trust relation instead of strict ex ante controls of the detailed budget appropriations.

The Finnish model for performance contracts requires Performance contracts to be an integral part of the performance management system and planning framework within the government. The most important documents that serve performance management and result-orientation in the ministry are the government program, the annual budget and plan of action, and performance contracts. All these are written in a way that they support and operationalize the strategic vision of the ministry. The ministry itself is divided into results areas which are almost equivalent to the departmental division of the ministry. The result areas of for example ministry of social and health are social and health prevention policy, social insurance, social welfare and health care services, occupational health and safety and finally administration and financial planning (Petri Uusikylä and Petri Virtanen, 1998).

According to Kobia et al (2006) the framework for implementing performance contracts in the Results Based Model (RBM) is at three levels namely: National, organizational and individual. Embedded in the RBM framework are two key components to ensure its success, a performance management information system and a strong enforcement mechanism. The framework is a key part of government's commitment to improving the performance of public service delivery and is based on agreed national principals and values. At the national level we have strategies/ policies that support implementation of performance contracts, at organizational level the Board of Directors of state corporations sign the contracts with the parent ministry to bind themselves to the achievement of mutually agreed targets. Since the Directors are not involved in the daily operations of an organization, the Board signs performance contracts with the Company Chief Executive to reassign composition responsibility assumed in their contract with the Government to the management for implementation (GOK, 2005). At the individual level, all employees sign a performance contract with their supervisors through the cascade process.

While performance-contracting arrangements are key features of performance-driven organizations, they are not sufficient on their own to ensure high performance. The leadership skills of chief executives and senior managers are crucial additional factors (OCED, 1999). The success of performance contracting strategy is dependent up on political goodwill and focused leadership (GOK, 2007). Other critical success factors that seem to determine how successful implementation of performance based contracting include the following: Partnership and teamwork, Planning, Internal management systems, Communication, on going feedback, adequate resources, customer identification, learning and growth, environmental scanning of both internal and external environments and institutionalized accountability for performance, Third party certification , Structuring incentives and penalties in Performance Based Contracting (Peter, 2005, Romzek et al, 2002 Kobia et al, 2006, Martin, 2002, Farazmand, 2001, Langat, 2006, GOK, 2005).

Many articles and other documents concerning implementation of performance based contracting identified the following as the barriers or problems that occurred when agencies started to use performance based contracting. Defining and identifying performance measures, providing adequate staff training, changing from budget based contracts with deliverables or outcomes as the trigger for payment, dealing with cash flows issues when payments are based on deliverables, having no control of what the agencies are supposed to do, Collecting data for performance monitoring, change management that is getting staff to switch their thinking from activities to outcomes, lack of adequate resources, resources not being released on time; some performance targets were highly ambitious and unplanned transfer of staff, lack of information, lack of incentives and lack of commitment,(Roy, 2005, Farazmand, 2001, Kobia et al 2006).

1.1.3 Kenyan Public Corporations

Powell (1987) defines a public enterprise as which the existence of a rule of law under which the public enterprise organization is given a corporate identity is assumed. The act or decree under the enterprise is established will give its actions and those of its officer's legal definition and authority. Many governments hold the view that, certain key sectors of their economies should not be left at the hands of the private citizens. These sectors are usually concerned with infrastructure activities e.g. generation and distribution of energy, transportation and communications. The outputs from these sectors are necessary inputs to the other sectors of the economy to enable them grow. They also require large initial capital investments which are not forthcoming from the private sector.

Kenyan Public Corporations are established by acts of parliament to offer services that are not provided by the Government Ministries. Such corporations are categorized in different sectors depending on their functions which include: Commercial, Agriculture, Education, Training and Research, Financial and Regulatory agencies. The corporations are established with the aim of earning a surplus and accomplish other societal objectives not necessarily financial in nature. Some provide goods and services needed by the society. They may provide much needed direction, support and act as the consumer's watchdog (Langat, 2006).

Public Corporations in Kenya have been faced with the challenge of poor and declining performance, which have hindered the realization of sustainable economic growth. This problem is attributed to excessive regulations and controls, frequent political interference, poor management, outright mismanagement and bloated staff establishments (GOK, 2005). In addition to retrogressive economic growth, declining performance in the public corporations resulted to poor service delivery, degeneration of infrastructure and a severe brain drain (Langat, 2006).

According to GOK (2005), the Government in an attempt to improve performance undertook a number of reform measures. This did not adequately address management systems that werere highly centralized. They did not provide a framework for guiding behaviour towards attainment of results nor did they ensure accountability in the use of public resources and efficiency in service delivery. The initiatives lacked the key elements of performance improvements which include: Performance information System, Comprehensive Performance Evaluation System and Performance Incentive System. Thus, performance contracts have been introduced to create a management system that focuses on the attainment of desired results. The contracts are supposed to instill accountability for results and link reward or sanction to measurable performance (GOK, 2005).

The policy decision to introduce Performance Contracts in the management of Public resources was conveyed in the Economic Recovery Strategy for Wealth and Employment Creation (2003; 2007). According to the Performance Evaluation report for 2006/2007, Kenya's Vision 2030 has further recognized performance contracting, among other key strategies to strengthen public administration and service delivery (GOK, 2007).

1.2 Problem Statement

Studies have been done on performance contracting both outside and within Kenya. Case studies on implementation of performance- based contracting were done in the states of Hawaii and Utah, USA. Both studies were geared towards finding out whether the performance contracting would solve the problems that existed in the construction industry. These studies were trying to identify the problems experienced in the implementation of performance contracts with a view to developing improvement (Bayfield, and Kashiwagi, 2002). The results of the performance based efforts in Hawaii and Utah show that information based performance can work. Both implementations show that to maintain the performance based systems, the user must manage risk by identifying that the user is the constraint and change must be slowly implemented, with well trained personnel. For both states the success of implementing a performance based contracting in the construction industry depended on the following: Contractors controlling the selection of the contractor by ensuring that the principle of best performer for the fairest price is upheld, profit is maximized for the contractors, design liability is minimized, contractors are motivated to continuously improve, owner is liable for the contractors actions, partnering is enforced, construction risk is transferred, information on the environment is obtained.

Studies have also been done on performance contracting in Kenya. For example, Othieno (2006) conducted a case study of KPLC on the process and experience of implementing Performance contract. The case study was geared towards establishing the processes, procedures, and techniques adopted by the KPLC in the implementation of performance contract and challenges encountered. Kiboi (2006) conducted a survey on Managing perception of performance contracting in the State Corporations in Kenya. The study was conducted among sixteen state corporations that were used as a pilot group in performance contracting. The study sought to establish the management’s level of awareness of the performance contracts and their perception of the same.

Langat (2006) in her study on factors necessary for the design of good performance contracts for state corporations in Kenya found that the design and implementation of performance contracts would only achieve the desired outcomes if the necessary prerequisite conditions are satisfied. These included: clear definition of an organization's vision, mission and strategic objectives; establishing and putting in place performance management and measurement systems and mitigating factors that are out of control of those who sign performance contracts.

The external and local studies mentioned above did not address factors that affect implementation of performance contracts, particularly in the public corporations in Kenya. This therefore, creates a gap in knowledge. This study therefore seeks to bridge this gap in knowledge by answering the following question.

What are the factors that influence the success of implementation of performance contract in the State **C**orporations in Kenya?

1.3 Objective of the Study

To determine factors that influence the success of the implementation of Performance contracts by the State Corporations in Kenya.

1.4 Importance of Study

The study is bound to benefit the Government policy makers, management of state corporations and future researchers in various ways

a) Management of state corporations

The findings of this study will help public service Managers and other decision – makers in coming up with ways of enhancing performance contracts implementation.

b) Researchers

The findings may attract other researchers to venture into performance contracting improvement strategies that have not been studied.

c) Government policy makers

The findings from this study will help government in developing responsive policies on performance contracting.

CHAPTER TWO: LITERATURE REVIEW

2.1 Performance Management

Armstrong (2006) defines Performance management as a systematic process for improving organizational performance by developing the performance of individuals and teams. It is a means of getting better results by understanding and managing performance within an agreed framework of planned goals, standards and competency requirements. Processes exist for establishing shared understanding about what is to be achieved in the short and longer term. It focuses on people doing the right things by clarifying their goals and it's owned and driven by line management.

Bacal (1998) defines performance management as an ongoing communication process, undertaken in partnership between an employee and his or her immediate supervisor that involves establishing clear expectations and understanding about the essential job functions the employee is expected to do, how employee's job contributes to the goals of the organization, how the employee and supervisor will work together to sustain, improve or build on existing employee performance and the job performance will be measured. It is a means of removing poor performance and working together to improve performance through talking and listening to people, learning and improving.

Balogun (2003) as quoted by Langat (2006) says that performance management is based on the premise that the clarification of corporate objectives, the institution of measures in pursuit of the objectives, and the empowerment of managers are all what it takes to energize organizations and orient them towards incremental productivity, cost reduction and "customer" satisfaction. However, regardless of the attention given to performance management in formal bureaucratic and in latter- day matrix organization structures, diversity in stakeholders' world- view constitutes a major stumbling block to productivity gains with particular reference to the African public service, whatever new performance initiatives are contemplated should not only capitalize on the continent's diversity but also deflect the threats that this diversity poses to organizational momentum and to the attainment of the goals of good governance and development.

Therefore, the essence of performance management lies in its professional ability to focus the attention of organization members on common objective and galvanize them towards the attainment of this objective (Langat, 2006)

Performance management is the process of creating a work environment or setting in which people are enabled to perform to the best of their abilities. Performance management is a whole work system that begins when a job is defined as needed. It ends when an employee leaves your organization. The goal of performance is to achieve the company mission and vision. Almost no one performs, for the organization, however, if his or her own mission and vision are not accomplished as well. An effective performance management system sets new employees up to succeed, so they can help your organization succeed. An effective performance management system provides enough guidance so people understand what is expected of them. It provides enough flexibility and wiggle room so that individual creativity and strengths are nurtured. It provides enough control so that people understand what the organization is trying to accomplish. As a human resources or management professional, one of the major goals of human resources manager is to develop the capacity of your organization and its members to perform; you want to create a high performance organization. You lead company efforts to create a workplace in which people can develop their full potential. An effective performance management system, which line managers lead and own, guarantees you will achieve your goals. (Heathfield, 2000).

According to Armstrong and Angela (2005) performance management is a comprehensive continous and flexible approach to the management of organizations, teams and individuals which involves the maximum amount of dialogue between those concerned. Performance management is a natural process of management whose cycle corresponds with William Deming's Plan –Do –check –act model. Performance management cycle include: Plan – Act –Monitor –Review. In this model planning entails agreeing objectives and competence requirements, identifying the behaviours required by the organization, producing plans expressed in performance agreements for meeting objectives and improving performance. Preparing personal development plans to enhance knowledge, skills and competences. Acting includes carrying out the work required to achieve objectives by referencing the plans and responding to new demands. Monitoring involves checking on progress in achieving objectives and responding to new demands and treating performance management as a continous process rather than annual appraisal event. Review entails holding a review meeting for a “stocktaking” assessment of progress and achievements and identifying where action is required to develop performance as a basis for completing the cycle by moving into the planning stage.

Dresner (2007) says that regardless of the size of the business, managing it requires four basic activities which form the management cycle. These are: Vision and strategy, goal and objective, execution and evaluation. These activities should be linked together and should support the purpose of the organization. He further states that more capable tools and technologies need to be provided to support the management system and must empower individuals in the organization through information that help people perform management activities and support management process.

2.2 Performance Based Contracting

A performance contract is defined as a negotiated agreement between the management of a public enterprise and its owners (the government) with respect to the future goals of the enterprise, the way that performance of each goal will be measured, performance targets, management incentives, financing of activities, the autonomy of management information system (accounting, reporting, audit) to establish and enforce accountability through the contract (Farazmand, 2001).For many developing countries the public enterprise is the major vehicle for economic development. They have the responsibility for the management of infrastructure activities that must be operated effectively for the development to take place at all. They are responsible for generating a significant share of gross national product. They frequently earn much of the foreign exchange available to their countries. Net capital formation in the country is often substantially that of public enterprises. In view of the importance of the role of the public enterprises in developing countries, the many conclusions about their unsatisfactory performance are disquieting. Experience from any field projects and surveys confirm the failure of the public enterprises in many countries to contribute to the wealth of their communities (Powell, 1987)

The Office of Federal Procurement Policy (OFPP) (1998) as quoted by Lawrence (2002 defines performance-based contracting as an approach where the statement of work is based on objective, measurable performance standards outputs. OFPP further states that a performance-based contract contains performance standards (i.e., quality, quantity, timeliness). Performance-based contracting means structuring all aspects of an acquisition around the purpose of the work to be performed with contract requirements set forth, in clear, specific, and measurable outcomes as opposed to either the manner by which the work is to be performed or broad and imprecise statements of work. Performance-based contracting methods are intended to ensure that required performance *quality* levels are achieved and that total payment is related to the degree that services performed meet contract standards.

OECD (1999) on the other hand defines Performance Contract as a range of management instruments used to define responsibility and expectations between parties to achieve mutually agreed results. Performance based contracting emphasizes results related to output, quality and outcomes rather than how the work is performed. It has an outcome orientation and clearly defined objectives and timelines. It uses measurable performance standards, quality assurance plans and provides performance incentives and ties payment to outcomes (Roy, 2005).

Petri Uusikylä and Petri Virtanen, (1998), says that the word contract" in the Finnish model refers more to a mutually negotiated agreement than a contract with a strict legal basis. The idea behind performance contracting in the Finnish Public Sector was to emphasize outputs and results instead of inputs, improve target-setting and follow-up. In this process, performance contracts have played an important role. The contractual model has replaced the old hierarchical, compliance-based guidance and control system. Result negotiations and performance contracts represent decentralized and flexible ways of making government agencies more cost-conscious, responsible and accountable. Performance management has also been considered as one of the main instruments for enhancing strategic thinking and prioritization among the ministries.

According to AAPAM (2005), in order to move the implementation of the Public Sector Reform Programmes (PSRP) forward, the Government of Kenya developed and launched the Strategy for Performance Improvement in the Public Service in 2001. The Strategy sought to increase productivity and improve service delivery. It outlined the actions that were necessary to imbed long lasting and sustainable change in the way public services are offered. Underpinning this strategy was the Results Oriented Management (ROM) approach, which makes it necessary to adjust operations to respond to predetermined objectives, outputs and results.

The adoption of this approach therefore demanded a paradigm shift in Government. This called for a transformation from a passive, inward looking bureaucracy to one which is pro-active, outward looking and results oriented; one that seeks ‘customer satisfaction’ and ‘value for money’. Consequently the ministries’/departments were required to develop strategic plans which reflected their objectives derived from the 9th National Development Plan, the Poverty Reduction Strategy Paper and based on the Medium Term Expenditure Framework (MTEF), Sectoral Priorities and Millennium development Goals .The Strategic plans should also focus on the attainment of Vision 2030. Preparation of the strategic plans and individual plans ensures that an agency focuses on results hence makes it possible to prepare performance contracts as results/ outputs can be defined (GOK, 2005).

In a mid-term review of the Economic Recovery Strategy carried out by the ministry of planning and national Development for the period 2003-2006, it was observed that the underlying objective of performance contracting is to align strategic plans, Annual work plans and budgets of public agencies in order to improve accountability while focusing resources on the attainment of key national policy priorities. To roll out the strategy, the Government established the performance contracts steering committee (PCSC) in August 2003 and gazetted on 8th April 2005. The PCSC is responsible for the overall administration and coordination of performance contracts in the public service. In the process of implementing performance contracts, the committee is assisted by an ad hoc Negotiation and Evaluation Task Forces comprising experts drawn from outside the public service whose role is to negotiate and evaluate the performance of the public corporations (GOK, 2007)

2.2.1 Origins and evolution of performance contracting

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

The Kenyan Government responded to the challenges of public service delivery by formulating and implementing Public Sector Reforms (PRS) way back in 1993. The program implementation was in three phases which are not neatly defined and as there is considerable overlap. The first phase focused on cost containment, which entailed staff rightsizing initiatives and rationalization of government functions and structures. It emerged from the macroeconomic and fiscal reforms that were embedded in structural adjustment programmes (SAPs) sponsored by the World Bank and the International Monetary Fund (IMF). Public service reform then sought to make Government affordable and lean through cost reduction and containment measures, especially by way of rationalizing the machinery of Government, divesting non-core operations, retrenching redundant staff, removing ghost workers from the payroll, freezing employment and adopting measures to control the wage bill and other personnel-based expenditures

(OECD, 2002).

Kobia et al (2006) reports that a Voluntary Early Retirement Scheme was put in place that targeted civil servants in job group A-G in which 42,132 civil servants retired as a result of rationalization exercise. Also, 23,448 civil servants who were occupying posts that were no longer required were retrenched by year 2000. According to GOK (2004), both phases of the reform coupled with the embargo on recruitment reduced the core civil service size from 272,000 in 1992 to 191,670 in 2003.

Public sector reform programmes (PSRPs) had little positive direct impact on delivery of public service. On the contrary, they in most instances severely constrained both capacity building and service delivery. Staff reduction and employment freeze provoked a shortage of skilled professionals and technicians throughout the services, and of the frontline workers needed to sustain, improve quality and expand public services in such key areas as education, health and agriculture extension. Even the reduction of such semi-skilled support staff as drivers, which for example happened under Kenya's voluntary early retirement scheme, significantly constrained performance of the public service managers. Another example of structural PSRP measure that negatively impacted on service delivery is cost sharing. In Kenya, prior to commencing the cost sharing policy, gross enrolment in primary education was about 100 per cent. Following an aggressive, albeit covert policy, of cost sharing, through introduction of fees and other levies, enrolment by end of 1990s had dropped to about 70 per cent (OCED. 1999)

Despite the above, structural reforms had some limited enclave successes in improving service delivery in a few instances. Examples of these include the establishment of autonomous revenue authority i.e Kenya Revenue Authority (KRA) in the early 1990s. This measure improved domestic revenue (tax) collection and the results of restructuring and downsizing that was accompanied by enhanced private sector participation. However, it is clear that the structural PSRPs failed to have a positive impact on service delivery because, first, the programme's strategies and interventions generally had little or no direct link to improvements in services. Secondly, some of the interventions, such as the freeze in recruitment, directly undermined capacity building for service delivery. As public services continued to deteriorate or stagnate under the structural PSRPs, there was political and public pressure to focus on improving these services which provided the drive for launching the next, new wave or facet of PSRP (OCED 2002, Page 4).

The second phase of the reform program focused on Capacity building. Staff training was for many years a pronounced element of capacity building in the public service of most governments in the region (Sub-Saharan Africa). In the mid-1990s, there was a remarkable shift to a broader definition of what capacity building entailed which was accompanied by new initiatives in the context of PSRPs. One such initiative was the UNDP and World Bank-led donors' "Partnership for Capacity Building". The countries in the region responded to such initiative with projects and strong components of capacity building in their PSRPs. The conceptual underpinning for the initiatives to shift PSRPs' focus from cost-reduction and cost-containment (structural) orientation was that weak capacity was the root problem in the poor delivery of public services. This conceptual frame apparently derived from the perceived success in improving and expanding public service delivery in developing countries in the decade after independence through capacity building interventions. It was thereby assumed that it would naturally lead to improved service delivery (OCED, 1999)

The key interventions in this second wave of PSRPs included: Enhancing staff skills. This aspect of the reform perpetuated past practices but there was a heightened sense of the need to give more emphasis to on-the-job and short-term training and to manage technical assistance (TA) differently and Improving management systems and structures. The systems targeted for improvement included those for human resources, financial and information management. Improvement in structures extended in some countries to encompass structural (as contrasted with governance-oriented) decentralisation. Restoring incentives and improving pay. Negative incentives have also been included, i.e., sanctions for non-compliance with new codes of ethical conduct. Improving the work environment. Elements of this have been identified to include raising budgetary allocations for operations and maintenance expenditures, office equipment and re-tooling. Thus most of the donor-funded PSR projects in these countries launched in the mid-1990s were mainly about capacity building in a more broadly defined sense. The World Bank, for example, provided technical assistance credits to Ghana (1995), Kenya (1994), Tanzania (1993) and Uganda (1995) (OCED 2002, page 5).

Despite the foregoing, the capacity building-oriented PSRPs did not have any perceptible impact on service delivery (OCED, 2002). In addition, the capacity building measures were in many instances piecemeal and fragmented. One singularly significant shortcoming was the conspicuous absence of effective pay and incentives reform, which remain critical to sustainable capacity building. Even in those countries where major downsizing of the public service had taken place, there was limited progress in pay reform. The resources released from retrenchment were not enough to appreciably lift the low salaries of public servants. Consequently, morale and discipline in the public service remained low, and unethical conduct in ways of bribery and corruption were on the rise. In the circumstances, service delivery continued to deteriorate in most countries throughout the 1990s. Recognizing this trend, further reform initiatives targeting performance improvement and management in the public service were required, thus leading to the third phase of the public sector reforms guided by Economic Recovery policy direction (DPM, 2004).

OCED (2002) observes that, the third phase focused on performance contracting. In the Economic Recovery Strategy (ERS)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 (OCED, 1999)

2.2.2 Expected *Outcome*

The expectations of the performance contracting included; Improved performance, decline in reliance on Exchequer funding, increased transparency in operations and resource utilization, increased accountability for results, Linking reward on measurable performance, reduced confusion resulting from Multiplicity of objectives, Clear apportionment of responsibility for action, improvement in the correlation between planning and implementation, creating a fair and accurate impression on the performance, greater autonomy and creation of enabling legal and regulatory environment (AAPAM, 2006, page 13). Other expected outcomes include Institutionalize performance- oriented culture in the public service, Measure and evaluate performance and enhance performance of loss making government agencies (GOK, 2005).

Performance based contracting Encourages and promotes contractors to be innovative and find cost effective ways of delivering services, results in better prices and performance, maximizes competition and innovation, achieves cost savings, gives the contractor more flexibility in general to achieve the desired results, shifts risk to contractors so they are responsible for achieving the objectives, provides incentives to improve contractor performance and ties contractor compensation to achievement, provides financial incentives for efficient use of resources, increases the likelihood of meeting mission needs, shows results more quickly, promises better outcomes, rewards good performance, encourages contractors and governments to work together to provide the best services to clients, allows contractors to have buy in and shared interests, promotes the achievement of departmental outcomes, identifies priority areas and invest resources to maximize client outcomes and sets groundwork to evaluate programs and services (Peter, 2005)

G. Bouckaert et al (1999) argues that objectives of contract management in the European countries are diverse. One is to improve service delivery after deregulating public monopolies which could not be guaranteed by full privatization. Two, is to better governmental control of the financial expenditure of the organizations involved in the delivery of public services. The use of contracts clarifies the role and the responsibility of the organizations in the delivery of basic services by stipulating the intended outputs against a fixed amount of financial input. A third objective is to enhance the efficiency and the effectiveness of service delivery and management by reducing traditional input controls and by focusing on steering by results.

Performance contracting has induced the public service to become more oriented towards

customers, markets and performance, without putting the provision of essential public services into jeopardy. The introduction of contracts and management by results is used to increase the performance as it emphasizes better the human resource management. Performance management strategies pursue three objectives namely, saving, internal management improvement and better accountability (OECD, 1997).

The expectation of introducing performance contracts in the Kenya include: Improved service delivery to the public by ensuring that top-level managers are accountable for results, reversing the decline in efficiency and ensuring that resources are focused on attainment of key national policy priorities of the government, institutionalizing performance oriented culture in the public Service through introduction of an objective performance appraisal system, measure and evaluate performance, linking reward to measurable performance, facilitate the attainment of desired results, instill accountability for results at the highest level in the government, ensure that the culture of accountability pervades all levels of the government machinery. Strengthen and clarify the obligation required of the government and its employees in order to achieve agreed target (Kobia and Mohammed, 2006).

The objective to introduce Performance Contracts was to: Create competitive advantage for the country by adopting best international practices in the management of the public service through developing competitive strategies, strategic planning and management, effective change management, developing customer focus through ***customer value proposition,*** cascading the strategic intent throughout public agencies and to all levels, creating value on key management and operational perspectives. Harness leadership capabilities within and outside the public service to ensure expedient achievement of national goals and priorities. Create a leadership pool which allows vision, strategy, goals and values to be the guide-posts for corporate action and behaviour. These in turn would ensure continuity and sustained momentum of cutting edge management practices in the Public service. Improvement in efficiency levels and ensuring that public resources are focused on attainment of key national policy priorities. Relating reward to measurable performance and ensuring that the culture of accountability pervades all levels of the Government. A key objective of the performance contracting policy is to simultaneously increase *autonomy* along with *transparency* and *accountability*. Government surveillance mechanisms are thereafter left to focus on outputs and outcomes of management processes and not on the processes themselves (Ndubai, 2008).

2.3 Factors influencing success of the Implementation of Performance Contracts

The results of performance contracting so far have been “mixed”. In some countries there has been a general and sustained improvement in public enterprise performance while in other countries some public enterprises have not responded or have been prevented by government policies from responding (Kobia et al, 2006). A world bank study of twelve public enterprises which had been subjected to performance contracting showed that efficiency (measured by total factor productivity) increased in three cases and remained the same or deteriorated in the other nine cases. Analysis shows that failure has often been due to lack of information, lack of incentives and lack of commitment (World bank, 1995) as quoted by Farazmand, 2001).

Many enterprises are instruments of political power and will. As such they are subject to intervention both overt and covert from politicians and regulatory officials who are charged with interpreting and implementing political directions. Many professional managers in the system prefer a “hands-off” policy from the politician which does not always happen. The political and cultural environment determines an acceptable level and quality of intervention by politicians, ranging from ill- informed or misguided interventions to out-right abuse of the system for personal or political ends (Farazmand, 2001)

Some of the problems experienced during the implementation of the performance contract in Kenya as cited by Kobia et al (2006) include lack of adequate resources, resources not being released on time; some performance targets were highly ambitious and unplanned transfer of staff. Respondents went ahead to suggest ways of ensuring performance contract is successful in their workplace. These include continuous training on Performance Contracting, allocation of adequate resources; develop a reward system for performers, increase salaries, enhance teamwork and availing the resources on time. Key success factors to implementation of performance contracts in African countries to include involvement of Public enterprise managers and citizen in performance contracting in order to institutionalize and create ownership of the performance contract and let them manage the process rather than external parties, allocate adequate resources to achieve the set target, Select few realistic target rather than too many objectives attempted at once and Government should honor their financial commitment to the enterprise.

According to a research on performance based contracting for selected US agencies and based on the literature review, three of the four states changed to performance based contracting to achieve better results. Critical processes that made implementation of performance contracts successful included holding partnering meetings with the contractor community to identify performance measures, having regularly scheduled meetings with all contractors once the contracts were awarded, identifying and discussing risks, making agreements to reinvest some savings back into the system, having a formal contract review and approval process located in one division, providing staff training, and maintaining open communication. Specific types of problems that the state agencies encountered included defining and identifying performance measures, providing adequate staff training, changing from budget based contracts to rate based contracts with deliverables or outcomes as the trigger for payment, dealing with cash flow issues when payments are based on deliverables or outcomes, dealing with contractors to resolve problems, having agencies do what they should be doing because there were certain elements in the process that contractors do not control, having data for performance monitoring, and getting staff to switch their thinking from activities to outcomes (Peter Roy, 2005)

Results of the survey sent to the senior civil servants that have either participated or followed closely the performance negotiations in the Finnish government revealed that. Performance contracting has improved co-operation between the agencies themselves and between the ministry and the agencies. This meant improved commitment to the systematic and strategic planning processes within the ministry and also strengthened links to the budget process. The weaknesses of the system identified fall roughly into two categories. Firstly, there is a gap between the planning stage and the monitoring phase of the system. Those interviewed stressed the lack of measurement and evaluation of the set objectives. The performance contracting objectives need indicators developed in order to measure the effects of these objectives properly. Secondly, it was argued that the set objectives were either too abstract or too detailed. Nevertheless, the performance contracting system has great potential. Those interviewed emphasized that this system is an option to accomplish relevant strategic goals for the ministry. If one wishes to point out the opportunities of the system, they have something to do with the strengthened will to cooperate between the ministry and its subordinate agencies and the development of evaluation methods and an indicator system for performance contracting. The results should be transparent, logically and systematically evaluated, and reported clearly. Performance contracting also makes possible the ministry's role as a strategic leader (Petri Uusiskyla and Petri Virtanen, 1999)

Public Enterprises in Africa are suffering financially and many are seeking financial assistance. Their problems stem from unclear and conflicting objectives, and a lack of autonomy and accountability. In implementing performance contracts, the common issues that were being addressed include; Improve performance to deliver quality and timely services to the citizen, improve productivity in order to maximize shareholders wealth, reduce or Eliminate reliance on the exchequer, instill a sense of accountability and transparency in service delivery and the utilization of resources and give autonomy to government agencies without being subjected to the bureaucracies and unnecessary procedures (Kobia and Mohammed, 2006)

According to Bouckaert et al (1999) the implementation of performance contracting in the Belgian and Flemish government reveals that performance contracting can be improved by the following: Having a solid legal framework which sets out the basic premises and the status of the contracts, may avoid ad *hoc* and fragmented solutions. However, such a framework should not hamper the adjustment of contractual terms to the conditions of each organisation. Stability of resources enhances the motivating effect of contracts. The political top must respect the operational autonomy of the contracted organisations. Central units should be provided with strategic management and monitoring capacities in order to play their role. Contract management should be accompanied by a performance-oriented change in organisational structure and management culture. Management instruments, focusing on performance and costs in the field of human resources and financial management, should be developed in an integrated way. There is need for a good definition of outputs and solid performance measures. Transfers should be based more on real costs or future initiatives than on historical budget levels. Long-term contracts (3 to 5 years) are to be recommended, but negotiated annual adjustments should be possible in the case of radically changing conditions. Performance contracting must be complemented by other instruments of control such as ombudsmen, quality charters, and regulations concerning transparency and openness. Contract management should be embedded in a trust-based relationship between the government and the organisation. The organisations should receive a maximum amount of autonomy within the limits of the control capacities of the government. This implies a correct use of incentives and sanctions. Evaluations should involve the two contracting parties. There should be regular overall evaluations and audits of benefits and drawbacks of the implemented contract in order to learn from these experiences.

According to Ndubai (2008) says critical success factors in the implementation of Performance Contracts include support at the highest political levels, the support of the public and other key stakeholders, such as trade unions is also critical in the long term, a high level institutional framework to coordinate the process is required, the need to induct and sensitize all key players, the process is more readily accepted when internally driven, not imposed as a donor conditionality, Strong and workable Performance Contracts should be founded on Strategic Plans, Evaluation should include continuous dialogue to minimize disputes, feedback on quarterly performance reports, Cascading of the PC process to all levels must be ensured, Performance targets must be linked not only to national planning instruments but also to budgetary resources, Involvement of outside experts gives objectivity and credibility to both development of targets and evaluation results, Service Delivery Charter is of particular importance because it addresses the customer value proposition directly.

Other critical success factors that seem to determine how successful performance based contracting is implemented include the following: ***Partnership and teamwork*** where a number of different individuals and organizations are involved in performance based contracting which means a change in the business relationships. Collaborative relationships need to be formed between the agency staff and the contractors. Trust, open communication and strong leadership have also been mentioned. ***Staff and contractor training***, the types of training include establishing performance measures and preparing various contract provisions, such as the statement of work or objectives, the contract payment process, incentives and penalties, and a monitoring or quality assurance plan (Peter, 2005, Romzek et al, 2002 Kobia et al, 2006).

Planning, conducting sufficient planning before implementing performance based contracting is also an important element. Planning efforts involve establishing who should be involved, identifying performance measures and desired outcomes in tandem with contractors and vendors, determining the current performance level, identifying potential risks, evaluating what services and programs will benefit the most from performance based contracting, and developing an implementation plan. A key indicator of agency planning is whether the agency already has a strategic plan and has established performance measures for its various programs (Roy, 2005, Kobia et al, 2006, Martin, 2002, Farazmand, 2001)

Internal management systems are keys to measuring and monitoring for both the agency and the contractors. Management information systems that can provide data to support performance and outcome measures as well as a monitoring plan are critical. Other factors that may influence the implementation of performance contract include: Communication, on going feedback, adequate resources (Kobia et al, 2006), customer identification, learning and growth, environmental scanning of both internal and external environments and institutionalized accountability for performance (Langat, 2006, GOK, 2005).

Third party certification is a low-cost and highly reliable form of quality assurance and monitoring to the list of recognized and acceptable approaches. It should be allowable to augment or replace other approaches to quality assurance or monitoring. Third party certification (licensure, certification, or accreditation) usually requires meeting multiple performance requirements, including *quality* and *outcome*. **Structuring incentives and penalties in Performance Based Contracting.** Structuring incentives and penalties to step up/step down from the performance standards or acceptable quality levels will make clear to contractors the implications of acceptable performance and unacceptable performance. When incentives and penalties step up/step down in similar fashion, and in similar quantities, an appeal is also made to fairness (Martin, 2002, Kobia et al, 2006)

According to Barbara S. Romzek and Jocelyn M. Johnston (2002), a preliminary test, based on the original case plus four additional cases of contracting, suggests support for the model. Successful contracting requires an extraordinary amount of advance planning, negotiation, and on-going collaboration among contracting partners. Our results indicate that contract implementation and management effectiveness can be enhanced by competition among providers, resource adequacy, performance measurement planning, training for state contract managers, careful evaluation of contractors' staff and financial management capacities, and the presence of a sound rationale for the reform. Effectiveness can be undermined by contracting with agencies that also advocate for their clientele groups, by complex subcontractor relationships, and by risk shifting to the contractors.

The literature review reveals that no research has been done on factors that influence the success of implementation of performance contract by the public corporations in Kenya. Other gaps in knowledge include: perceptions on the role of Performance Contracting in improving service delivery is needed and a perception of Kenyan citizens on service delivery improvement since the implementation of Performance Contracts in Kenya.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

The study was quantitative because of large amounts of data from various factors and sectors. To make inference from this study, descriptive statistical design was used.

3.2 Study Population

The population of interest in this study consisted of 124 state corporations whose management signed performance contracts during 2006/2007 financial year and had their performance evaluated. The list **(**Appendix I) of these state corporations was obtained from the Performance Contracts Steering Committee (PCSC), Office of the President (GOK, 2007).

3.3 Sample Size

Since the population of interest was large, stratified random sampling with proportional allocation was used to come up with a representative proportion of the sample. This method was appropriate because all the existing sectors were well represented. Each functional category (sector) formed a stratum. A sample was drawn randomly from each stratum. The sample size for the study was 50 state corporations computed using the formula ns = ns/N (ni) (see table 1*)*. Where ns is the experimental sample size, ni is the number of corporations in each category, N the entire population or all state corporations which have signed performance contract and evaluated in 2006/2007.

3.4 Method of Data Collection

The study used primary data which was collected using a structured questionnaire with both closed and open ended questions. The questionnaire was divided into three sections. Section A sought data on organizational profile and respondents titles; Section B sought data on factors that influence the success of performance contract implementation, and Section C obtained information on the extent to which the organizations considered the given 22 factors as influencing the success of performance contracts implementation. The questionnaires were administered by way of email and ‘drop and pick’ method. The respondents of the study were those charged with the responsibility of performance contract implementation i.e. human resource managers, legal officers and other administrators in charge of performance contracts.

3.5. Data Analysis

Data obtained was analyzed using descriptive statistics (percentages, means and standard deviations). Factor analysis was done to determine the main factors that influence implementation of performance contracts and their relative importance. Percentages were used to summarize the relative proportions of the factors that influence the success of performance contract implementation. The frequency distributions were used to examine the distribution of responses of each of the conditions. The means were used to show the factorials loads of the factors. The standard deviations were used to show the variations of responses from various respondents and generally to indicate the spread of the responses. To obtain these the edited data was coded, labeled and then input into the Statistical Package for Social Sciences (version 11.5; 2002 © SPSS. Inc. US) for statistical analysis.

CHAPTER FOUR: DATA ANALYSIS AND DISCUSIONS

4.1 Introduction

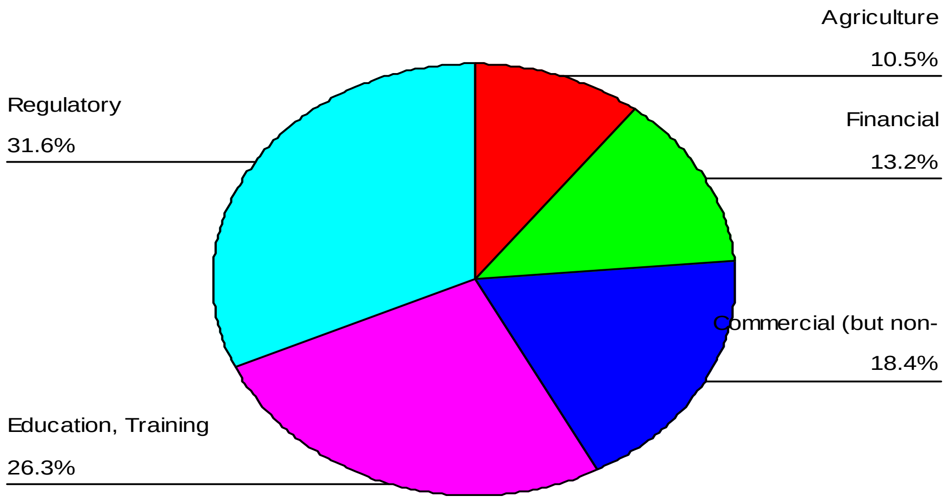
The study was designed with the sole objective of determining the factors that influence the success of performance contract implementation by state corporations in Kenya. To achieve this objective, data was collected from respondents ranging from the top management to middle level managers of these organizations. The study focused on the human resource managers and senior officers responsible for performance contract implementation of the respective organizations. The study targeted 50 state corporations as shown in table 1. Out of the targeted state corporations, 38 (76%) responded as shown in table 2. This proportion is adequate for statistical analysis and inference for this study.

Table 1: Sampling frame

Functional Category (Sector) (Stratum)	Total number of firms (population) (*ni*)	Sample fraction (f) (n/N) (50/124)	Sample size (n/N×ni)	No of Respondents
Commercial	19	0.4	8	7
Agricultural	7	0.4	3	4
Education, Training and Research	25	0.4	10	10
Financial	13	0.4	5	5
Regulatory	60	0.4	24	12
TOTAL	124	0.4	50	38

The sample size for this study was determined according to the number of state corporations that had signed performance contract and were evaluated in the year 2006/2007 according to the GOK, 2007 report. Table 1 shows the total number of state corporations that signed performance contract and were evaluated and a sample size that can be extracted for the study to give statistically significant conclusion. Therefore, this table helped the investigators to establish a sampling frame which could provide valid information that can be extrapolated to other state corporations. According to the sampling frame, the power of this study was 76% (that is 38 state corporations out of the targeted 50 from the sampling frame). This proportion is adequate for the study.

Figure 1: Distribution of respondents by sector



The state corporations that responded well as per the study target are those operating in the following sectors; commercial, agriculture, education training and research and financial. Their responses were above 95%, while regulatory had a response of 50% (12 state corporations).

In general, 31.6% or 12 corporations were from regulatory. This finding was consistent with the GOK, 2007 report on the sectors of operations for the state corporations which signed performance contract and were evaluated. The agricultural sector had the lowest number of the state corporation which signed the performance contract and had been evaluated. This finding agrees with the GOK, 2007 report.

4.2 Organizational Profile

The study analyzed the organizational profile on the basis of the sector under which the state corporation interviewed operate and the number of employees they have. This is shown in Table 2 and Figure 1.

Table 2: Analysis of state corporations by number of employees and sector of operation

Sector of Operation		Number of Employees				Total
		Below 500	500-1000	1001-2000	Over 2000	
	Regulatory	9	2	0	1	12
	Financial	3	0	2	0	5
	Education, Training and Research	6	1	1	2	10
	Agriculture	2	0	2	0	4
	Commercial (but non-financial)	2	1	2	2	7
Total		22	4	7	5	38
Percentage number of employees (%)		57.9	10.5	18.4	13.2	100

As shown in table 2, state corporations with employees below 500 had significantly high number of respondents (57.9%), while those with employees between 500-1000 were the lowest (10.5%).

4.3 Factors that influence the success of performance contract implementation by the state corporations

The main objective of this study was to establish factors which influence the success of performance contract implementation by the state corporations. To achieve this, the respondents were presented with statements describing factors that influence the success of performance contract implementation and were required to rate them on the extent to which they agreed or disagreed on the applicability of a particular factor. A 5-point Likert scale was used to rate these factors. The responses to these set of factors were analyzed to obtain standard deviations and mean scores. The results are presented in table 3.

For the purpose of analysis, the respondents ratings of each factor has factorial mean which are classified as follows; factorial mean below 2.9, 3 to 3.9 and above 4 are considered low, medium and high important respectively. High rating means that the factor is absolutely important, medium rating implies that it is important, while low rating implies that impact of the factor in influencing the success of performance contract implementation is insignificant.

Table 3: Summary of the means and standard deviations for the factors that influence success of performance contract implementation

No	Factors	Mean	Stdev
1	Involvement of all staff at all levels in performance contracting	4.76	.606
2	Involvement of external experts in coming up with the performance contract targets	2.21	1.175
3	Provision of adequate resources for all activities in the performance contract	4.76	.431
4	Establishing a mechanism for getting regular feedback on the progress in the performance of the performance	4.76	.606
5	Linking reward to performance	4.32	.945
6	Applying sanctions to low performance	3.68	1.173
7	Linking training to performance	4.32	.945
8	Institutionalization of corporate governance	4.53	.615
9	Focused leadership	4.74	.511
10	Managers participation in the negotiation process	4.71	.524
11	Partnership and team work	4.59	.821
12	Continuous training on performance contracting	4.00	1.128
13	Developing appropriate performance measures	4.68	.638
14	Internal management system that provides data on implementation progress	4.44	.705
15	Third party assessment to provide quality assurance and monitoring of the system	3.91	1.164

16	Availability of enabling legal and regulatory environment	4.09	.996
17	Institutionalization of performance-oriented culture in the organization	4.56	.705
18	Effective change management	4.41	.701
19	Open communication	4.59	.609
20	Involvement of external parties in performance evaluation	3.53	1.261
21	Quarterly performance reports	4.47	.706
22	Effective implementation of service delivery charter	4.38	.779

It is evident from table 3 that 81.8% (18) of the factors presented to the respondents were found to score a factorial mean of 4 and above. This indicates that they were absolutely important in influencing the success of performance contract implementation. 13.6% (3) of the factors had a mean score of between 3 to 3.9, an indication that they were relatively important. Only one factor was found to have an insignificant impact in influencing the success of performance contract implementation since it had a factorial mean score of less than 2.9. This was the involvement of external experts in coming up with the performance contract targets. Perhaps the reason for this was because the respondents' feels left out in setting performance contracts and may wonder how an external expert is likely to understand the targets for their corporations.

Involvement of all staff at all levels in performance contracting, provision of adequate resources for all activities in the performance contract, establishing a mechanism for getting regular feedback on the progress in the performance and focused leadership among others (see table 3), were found to be key factors that influenced the success of performance contract implementation. One reason could be because of collective responsibility assumed by all staff members in a corporation to achieve the set targets. Another reason could be that everyone feels that their contribution to the organization is valued and appreciated. Communication, reviews and corrective measures were generally enhanced by the regular feedback on performance contract implementation. Similar findings were found by Peter, 2005, Romzek et al, 2002 Kobia et al, 2006, Martin, 2002, Farazmand, 2001, Langat, 2006, GOK, 2005 and GOK, 2007 who concluded that the above factors were critical in determining how successful performance based contracting is implemented.

It should be noted that even though the above factors were highly rated by the respondents, the findings indicate that the responses were varied across the various respondents with regard to specific factors as shown by the standard deviations. For example, even though continuous training on performance contracting and the availability of enabling legal and regulatory environment had a mean score of 4 and 4.09 respectively, their standard deviations were high that is 1.128 and 0.996 respectively. This implies that, some respondents perceived these factors as not having a significant impact on influencing the success of performance contract implementation.

There are proportions of respondents who were indifferent (neither agreed nor disagreed) on the importance of the each of the factors in influencing the success of performance contract implementation. For example, 10.5% of the respondents were indifferent with regard to continuous training on performance contracting and internal management system that provides data on implementation progress, 13.2% of them were also indifferent to the availability of enabling legal and regulatory environment and 15.8% to effective implementation of service delivery charter. These proportions are significant and generalizations made in respect to these responses ratings should take them to account (See appendix IV).

Factors that were rated moderately (with mean score of 3 to 3.9) were; applying sanctions to low performance, third party assessment to provide quality assurance and monitoring of the system and involvement of external parties in performance evaluation. Similarly, the responses varied from one respondent to another as indicated by the standard deviations (No specific trend observed in the responses). For instance, applying sanctions to low performance and third party assessment to provide quality assurance and monitoring of the system had mean scores and standard deviations of between 3 to 3.9 and 1.173 and 1.163 respectively. This implies that there were a relatively high proportion of respondents who indicated that the factors could be important as shown by the variations in the response.

With respect to involvement of external parties in performance evaluation which had a mean score of 3.53, 55.3 % of respondents agreed that this factor was important. This means that even though the factors mean scores were below 4, there were a relatively high proportion of respondents who indicated that the factor could be important (See appendix IV).

Involvement of external experts in coming up with the performance contract targets was the only lowly rated factor with a mean score of 2.21 and a standard deviation of 1.175. This indicates that most respondents identified the factor as insignificant in influencing the success of performance contract implementation. This is perhaps due to the assumption that external parties do not have knowledge on the operations of the corporation. Similar results were found by Kobia et al (2005) and World Bank (1995) who concluded public enterprise managers should be involved in setting the targets rather than external parties since external experts' lacks touch with the running of the organization and therefore cannot adequately influence the success of its performance. The findings generally show that 95% of the factors presented are important in influencing the success of performance contract implementation by the state corporations.

4.4 Extent to which the factors influenced the success of performance contract implementation by the state corporations.

The respondents were required to indicate on a scale of 5 the extent to which the above factors influenced the success of performance contracts implementation during 2006/2007 contracting period. The mean scores and standard deviations were then computed and are presented in table 4.

The study considered a factor with a factorial mean score of below 2.9 as lowly rated, that with a mean of between 3 to 3.9 as moderately rated and above 4 highly rated. This therefore means that factors with a mean score of 4 and above significantly influenced the success of performance contract implementation. Those with mean scores between 3 and 3.9 indicate that their contribution was moderate while those with means below 2.9 influenced the success of performance contract implementation to a small extent.

Table 4: Summary of the means and the standard deviations for the factors that influenced success of performance contract implementation during the contract period 2006/2007

No	Factors	Mean	Stdev
1	Involvement of all staff at all levels in performance contracting	3.74	1.427
2	Involvement of external experts in coming up with the performance contract targets	2.08	1.194
3	Provision of adequate resources for all activities in the performance contract	3.53	1.156
4	Establishing a mechanism for getting regular feedback on the progress in the performance of the performance	3.87	1.143
5	Linking reward to performance	2.47	1.447
6	Applying sanctions to low performance	2.49	1.446
7	Linking training to performance	3.14	1.456
8	Institutionalization of corporate governance	3.53	1.310
9	Focused leadership	4.16	1.053
10	Managers participation in the negotiation process	4.08	1.148
11	Partnership and team work	4.03	1.236
12	Continuous training on performance contracting	3.30	1.412
13	Developing appropriate performance measures	3.95	1.268
14	Internal management system that provides data on implementation progress	3.95	1.104
15	Third party assessment to provide quality assurance and monitoring of the system	2.92	1.516
16	Availability of enabling legal and regulatory environment	3.41	1.301

17	Institutionalization of performance-oriented culture in the organization	3.65	1.184
18	Effective change management	3.42	1.079
19	Open communication	3.75	.967
20	Involvement of external parties in performance evaluation	3.14	1.437
21	Quarterly performance reports	4.03	1.320
22	Effective implementation of service delivery charter	3.69	1.191

Four factors (18.2%) were found to have significant influence on the success of performance contract implementation. These had a mean factorial score of 4 and above (see table 4). These included; focused leadership; partnership and teamwork; manager participation in the negotiation process and quarterly performance reports. Among these focused leadership was established as the most important factor with mean factorial score of 4.16. This shows that leadership plays a crucial role in the implementation of performance contract. A small proportion of the respondents indicated that the factor was important with a lower mean limit as shown by the standard deviation of 1. 053. A few respondents disagreed that the four key factors voted above did not determine the success of performance contract implementation (See appendix V).

From all the factors studied, 18 (81.8 %,) were found to be crucial in influencing the success of performance contract implementation by the state corporations. It is important to note that the success of performance contract implementation depends on the integration of all these eighteen factors adequately. Involvement of external experts in coming up with the performance targets was found to be a weak factor that influenced the success of performance contract implementation. The mean score for this factor was 2.08 while its standard deviation was 1.194 which shows that an insignificant number of the respondents agreed that this factor influenced the success of the performance contract implementation during the contracting period of 2006/2007.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

In this chapter the findings of the study are summarized and discussed in relation to the objective of the study. Also included in this chapter are the conclusions, limitations of the study and recommendations for further research.

5.2 Summary

Performance contracting has been introduced in the state corporations as part of the broader public sector reforms aimed at improving efficiency and effectiveness in the management of these corporations. Literature reveals that the results of performance contracting have been “mixed”. In some countries there has been a general and sustained improvement in public enterprise performance (World Bank, 1995) as quoted by Farazmand, 2001.

This study established that the success of performance contract implementation depends largely on the following factors; focused leadership and participation of managers in the negotiation process; Partnership and team work; quarterly reviews of performance contracts reports; involvement of all staff at all levels in performance contracting and provision of adequate resources for all activities in the performance contract. Establishing a mechanism for getting regular feedback on the progress in the performance of the performance and linking training to performance. Also, institutionalization of corporate governance, continuous training on performance contracting and developing appropriate performance measures and internal management system that provides data on implementation progress; availability of enabling legal and regulatory environment, institutionalization of performance-oriented culture in the organization and effective change management. Open communication and effective implementation of service delivery charter were also established as key factors in the success of performance contract implementation.

In contrast the following factors were found to have insignificant impact on influencing performance contract implementation; involvement of external experts in coming up with performance contract, linking reward to performance, applying sanctions to low performance and third party assessment to provide quality assurance and monitoring of the system. These factors were insignificant because they involve external parties influences which are thought to have limited knowledge on the operations of the state corporation.

5.3 Conclusions

The findings of this research have brought about a number of issues concerning factors that influence the success of performance contract implementation by the state corporations. From the findings of this study, it is observed that 81.8% (18) of the factors presented to the respondents were considered absolutely important in influencing the success of the performance contract implementation. Only 18.2% (4) of the factors that was perceived as having a high significance in influencing the success of performance contract implementation during the contracting period of 2006/2007. This means although the factors were absolutely important as indicated by the respondents, they were not applied equally by the state corporations during the implementation period.

It is worth noting that even though 81.8 % of the factors were considered as absolutely important, quite significant proportions showed some indifference on the importance of the factors. Similarly, 63.6% of the factors that had a significant impact on the success of the performance contract implementation during the contracting period of 2006/2007; there were proportions of respondents who indicated that the factors had a high impact on the success of the performance contracts. It is important to note that the success of performance contract implementation depends on the integration of all the eighteen identified factors adequately.

5.4 Limitations of the study

The study would have explicitly given the exact picture of the success of the implementation of performance contract and the factors that can be considered critical in this process if all state corporations that signed the performance contract were evaluated. There are few states corporations that were eligible for this study due to the fact that all state corporations that signed performance contract were not evaluated. Though the sample size was adequate for the baseline survey, a good power would have been generated if all sectors of operations in the country were all covered. This would make adoption of this study recommendation important and applicable in ensuring success in management and performance of state corporations. Therefore, there is a need for the extrapolation of this study to cover all state corporations in all sectors of economy in future.

5.5 Recommendations for further research

The study should increase sample size to generate more powerful results in terms of inferences. This is only possible if all state corporations' signs performance contract and evaluated annually.

Future studies should also evaluate these factors not from the responses from the respondents in management positions but also from the employees and perhaps compare and contrast the responses. This will help identify factors that can be adopted across the board and those that are of no use in ensuring the success of any state corporation.

Further, future research can be done on the perception of Kenyan citizens on service delivery improvement since the implementation of performance contracts.

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Appendix I: **List of State Corporations whose management signed performance contracts during 2006/2007 and were evaluated.**

NO.	STATE CORPORATION	SECTION
1.	Nyayo Tea Zones Development Corporation	Agriculture
2.	Agricultural Development Corporation	Agriculture
3.	Chemelil Sugar Company	Agriculture
4.	Nzoia Sugar Company	Agriculture
5.	South Nyanza Sugar	Agriculture
6.	Pyrethrum Board of Kenya	Agriculture
7.	National Cereals & Produce Board	Agriculture
8.	Agro Chemical & Food Company	Commercial
9.	Kenya Wine Agencies	Commercial
10.	Kenya Broadcasting Corporation	Commercial
11.	Postal Corporation of Kenya	Commercial
12.	Telcom Kenya Ltd.	Commercial
13.	East African Portland Cement Company	Commercial
14.	Kenya Safari Lodges & Hotels Ltd.	Commercial
15.	Kenya Meat Commission	Commercial
16.	National Oil Corporation of Kenya	Commercial
17.	Kenya Pipeline Company	Commercial
18.	Kenya Electricity Generating Company	Commercial
19.	Kenya Power and Lighting Company Ltd	Commercial

20.	Kenya Airports Authority	Commercial
21.	Kenya Railways Corporation	Commercial
22.	Jomo Kenyatta Foundation	Commercial
23.	Kenya Literature Bureau	Commercial
24.	Kenyatta International Conference Centre	Commercial
25.	New Kenya Cooperative Creameries Ltd.	Commercial
26.	National Housing Corporation	Commercial
27.	Kenyatta University	Education
28.	University of Nairobi	Education
29.	Jomo Kenyatta University of Agriculture and Technology	Education
30.	Egerton University	Education
31.	Moi University	Education
32.	Masinde Muliro	Education
33.	Higher Education Loans Board	Education
34.	Kenya National Examinations Council	Education
35.	Teachers Service Commission	Education
36.	Kenya Utalii College	Tertiary Education
37.	Kenya College of Communication	Tertiary Education
38.	Kenya Medical Training College	Tertiary Education
39.	Cooperative College of Kenya	Tertiary Education
40.	Kenya Water Institute	Tertiary Education
41.	Tea Research Foundation	Training and Research
42.	Kenya Institute for Public Policy Research and Analysis	Training and Research

43.	Kenya Marine & Fisheries Research Institute	Training and Research
44.	Kenya Industrial, Research and Development Institute	Training and Research
45.	Kenya Medical Research institute	Training and Research
46.	Kenya Forestry Research institute	Training and Research
47.	Kenya Institute of Administration	Training and Research
48.	Kenya Agricultural Research Institute	Training and Research
49.	Coffee research foundation	Training and Research
50.	Kenya Sugar Research foundation	Training and Research
51.	National Museums of Kenya	Training and Research
52.	Consolidated Bank of Kenya of	Financial
53.	Kenya National Assurance Company (2001) Ltd.	Financial
54.	Kenya Reinsurance Corporation Ltd	Financial
55.	Kenya Post Office savings Bank	Financial
56.	Kenya Revenue Authority	Financial
57.	Kenya Roads Board	Financial
58.	National Hospital Insurance Fund	Financial
59.	Industrial & Commercial Development Corporation	Financial
60.	Agricultural Finance Corporation	Financial
61.	Industrial Development Bank	Financial
62.	Kenya Industrial Estate	Financial
63.	National Social Security Fund	Financial
64.	Kenya Tourist Development Corporation	Financial

65.	Athi Water Services Board	Regulatory
66.	Commission of Higher Education	Regulatory
67.	Aricultural Development Corporation	Regulatory
68.	Bomas of Kenya	Regulatory
69.	Tana Water Services Board	Regulatory
70.	Capital Market Authority	Regulatory
71.	NGO coordination Board	Regulatory
72.	Kenya Plant Health Inspectorate Services	Regulatory
73.	Kenya Accountants and Secretaries National Examinations Board	Regulatory
74.	Kenya Development Corporation	Regulatory
75.	National Council for Persons with Disabilities	Regulatory
76.	Kenya Dairy Board	Regulatory
77.	Catering & Tourism Training Development Levy Trustees	Regulatory
78.	Kenya Maritime Authority	Regulatory
79.	Kenya Wildlife Services	Regulatory
80.	Water Services Regulatory Board	Regulatory
81.	Communications Commission of Kenya	Regulatory
82.	Lake Victoria South Water Services Board	Regulatory
83.	Lake Victoria North Water Services Board	Regulatory
84.	Export Promotion	Regulatory
85.	Local Authorities Provident Fund	Regulatory
86.	National Water Conservation and Pipeline Corporation	Regulatory

87.	Northern Water services Board.	Regulatory
88.	Sports Stadia Management Board	Regulatory
89.	Council for Legal Education	Regulatory
90.	National Irrigation Board	Regulatory
91.	Rift Valley Water Services Board	Regulatory
92.	Tea Board of Kenya	Regulatory
93.	Water Resources Management Authority	Regulatory
94.	National Commission on Gender and Development	Regulatory
95.	Kenya tourist Board	Regulatory
96.	Kenya Investment Authority	Regulatory
97.	Export Processing Zones Authority	Regulatory
98.	National Coordinating Agency for Population and Development	Regulatory
99.	Moi Teaching & Referral Hospital	Regulatory
100.	Kenya Ferry Services	Regulatory
101.	Kenya Civil Aviation Authority	Regulatory
102.	Horticultural Crops Development Authority	Regulatory
103.	Retirement Benefits Authority	Regulatory
104.	Kenya Industrial Property Institute	Regulatory
105.	Electricity Regulatory Commission	Regulatory
106.	Water Services Trust fund	Regulatory
107.	Kenya Bureau of Standards	Regulatory
108.	National Aids Control Council	Regulatory
109.	Kenya Sugar Board	Regulatory

110.	Coffee Board of Kenya	Regulatory
111.	Kenya Ordinance Factories Corporation	Regulatory
112.	Kenya National Library Services	Regulatory
113.	Coast Water Service Board	Regulatory
114.	Kenyatta National Hospital	Regulatory
115.	National Environment Management Authority	Regulatory
116.	Kenya Sisal Board	Regulatory
117.	Kenya Medical Supplies Agency Board	Regulatory
118.	Ewaso Ng'iro North Development Authority	Regulatory
119.	Tana & Athi River Development Authority	Regulatory
120.	Kerio Valley Development Authority	Regulatory
121.	Lake Basin Development Authority	Regulatory
122.	Coast Development Authority	Regulatory
123.	Athi River Services	Regulatory
124.	Bomas of Kenya	Regulatory

Source: (GOK, 2007)

Appendix II: Introduction Letter

Researcher: Mary Mwangangi

July 2009

Dear respondent

MBA Research Project

I am carrying out a research study on "factors that influence the success of performance contract implementation in the state corporations in Kenya" with sole purpose of gathering information for a Management Project Paper as required in the partial fulfillment of the Degree of Masters in Business Administration, University of Nairobi.

The information and data required is needed for academic purpose and will be treated in strict confidence.

Thank you for your kind assistance and cooperation.

Yours faithfully,

Mary K. M. Mwangangi	Professor P.K' Obonyo
Student	**Supervisor**

Appendix III : Research Questionnaire

QUESTIONNAIRE

This study focuses on the factors that influence implementation of performance contracts in State Corporations in Kenya. I would appreciate if you could kindly respond to the following questions.

SECTION A: General information

1. Name of the State Corporation……………………………………………………….

2. Year of establishment **……………………………………………………………….**

3. Number of employees (Tick)

Below 500 ( )

500 – 1000 ( )

1001 -2000 ( )

Over 2000 ( )

4. Parent Ministry under which the corporation operates…………………………………..

5. Sector under which you operate. (Tick)

Commercial (but non-financial) ( )

Agriculture ( )

Education, Training and Research ( )

Financial ( )

Regulatory ( )

8. What is your Job title **(optional)** ………………………………………………

SECTION B:

Please indicate on a scale of 1 to 5 presented below the extent to which you agree or disagree with the following statements concerning the implementation of performance contracts.

Use the key below & tick appropriate

1. strongly disagree
2. Disagree
3. Neither agree nor disagree
4. Agree
5. Strongly agree

	SUCCESS OF PERFORMANCE CONTRACT IMPLEMENTATION DEPENDS LARGELY ON THE FOLLOWING:	1	2	3	4	5
1	Involvement of all staff at all levels in performance contracting					
2	Involvement of external experts in coming up with the performance contract targets.					
3.	Provision of adequate resources for all activities in the performance contract					
4	Establishing a mechanism for getting regular feedback on the progress in the performance of the Performance Contracts					

5	Linking reward to performance					
6	Applying sanctions to low performance					
7	Linking training to performance					
8	Institutionalization of corporate governance					
9	Focused leadership					
10	Managers participation in the negotiation process					
11	Partnership and team work					
12	Continous training on performance contracting					
13	Developing appropriate performance measures					
14	Internal management system that provides data on implementation progress					
15	Third party assessment to provide quality assurance and monitoring of the system					
16	Availability of enabling legal and regulatory environment					
17	Institutionalization of performance- oriented culture in the organization					
18	Effective change management					
19	Open communication					

20	Involvement of external parties in performance evaluation					
21	quarterly performance reports					
22	Effective implementation of Service Delivery Charter					

SECTION C

With specific reference to your organization please indicate on a scale of 1 to 5 below the extent to which you agree or disagree with each of the above factors in influencing the implementation of performance contracts during 2006/2007 contracting period.

Use the key below & tick appropriate

1. strongly disagree
2. Disagree
3. Neither agree nor disagree
4. Agree
5. Strongly agree

	SUCCESS OF PERFORMANCE CONTRACT IMPLEMENTATION DEPENDENDED LARGELY ON THE FOLLOWING:	1	2	3	4	5
1	Staff at all levels were involved in performance contracting					
2	External experts were involved in coming up with the performance contract targets					
3.	Adequate resources for all activities in the performance contract were provided					
4	A mechanism for getting regular feedback on the progress in performance of the Performance Contracts was in place					
5	Rewards were linked to performance					
6	Sanctions were applied to low performance					
7	Staff training was linked to performance					
8	Corporate governance was Institutionalized in the organization					
9	Focused leadership was provided for					
10	Managers participated in the negotiation process					
11	Partnership and team work was critical in implementation of the performance contracts					
12	Continous training on performance contracting was given					

13	Appropriate performance measures were developed					
14	Internal management system provided data on the implementation progress					
15	Third party assessment provided quality assurance and monitoring of the system					
16	Enabling legal and regulatory environment which sets out the basic premises and the status of the contracts was available					
17	Performance- oriented culture was institutionalized in the organization					
18	Effective change management was implemented in the organization					
19	Open communication was exercised					
20	External parties were used to carry out performance evaluation					
21	Quarterly performance reports were done					
22	Service Delivery Charter was implemented effectively					

Thank you for your co-operation

Appendix IV. The summary of the means factorial scores and standards deviations of the factors influencing the success of performance contract implementation

Factors	Responses	Frequency	Percentage	Mean	Stdev
Involvement of all staff at all levels in performance contracting	Strongly disagree	3	7.9	3.74	1.427
	Disagree	8	21.1		
	Neither agree or disagree	2	5.3		
	Agree	8	21.1		
	Strongly agree	17	44.7		
	Total	38	100.0		
Involvement of external experts in coming up with the performance contract targets	Strongly disagree	17	44.7	2.08	1.194
	Disagree	8	21.1		
	Neither agree or disagree	7	18.4		
	Agree	5	13.2		
	Strongly Agree	1	2.6		
	Total	38	100.0		
Provision of adequate resources for all activities in the performance contract	Strongly disagree	2	5.3	3.53	1.156
	Disagree	8	21.1		
	Neither agree or disagree	2	5.3		
	Agree	20	52.6		

	Strongly Agree	6	15.8		
	Total	38	100.0		
Establishing a mechanism for getting regular feedback on the progress in the performance of the performance	Strongly disagree	2	5.3	3.87	1.143
	Disagree	3	7.9		
	Neither agree or disagree	6	15.8		
	Agree	14	36.8		
	Strongly Agree	13	34.2		
	Total	38	100.0		
Linking reward to performance	Strongly disagree	13	34.2	2.47	1.447
	Disagree	9	23.7		
	Neither agree or disagree	7	18.4		
	Agree	3	7.9		
	Strongly Agree	6	15.8		
	Total	38	100.0		
Applying sanctions to low performance	Strongly disagree	11	28.9	2.49	1.446
	Disagree	12	31.6		
	Neither agree or disagree	6	15.8		
		1	2.6		

	Agree				
	Strongly Agree	7	18.4		
	Total	37	97.4		
Linking training to performance	Strongly disagree	7	18.4	3.14	1.456
	Disagree	7	18.4		
	Neither agree or disagree	5	13.2		
	Agree	10	26.3		
	Strongly Agree	8	21.1		
	Total	37	97.4		
Institutionalization of corporate governance	Strongly disagree	4	10.5	3.53	1.310
	Disagree	4	10.5		
	Neither agree or disagree	9	23.7		
	Agree	10	26.3		
	Strongly Agree	11	28.9		
	Total	38	100.0		
Focused leadership	Strongly disagree	1	2.6	4.16	1.053
	Disagree	3	7.9		
	Neither agree or disagree	3	7.9		

		Agree	13	34.2		
		Strongly Agree	18	47.4		
		Total	38	100.0		
Managers participation in the negotiation process		Strongly disagree	1	2.6	4.08	1.148
		Disagree	5	13.2		
		Neither agree or disagree	2	5.3		
		Agree	12	31.6		
		Strongly Agree	18	47.4		
		Total	38	100.0		
Partnership and team work		Strongly disagree	1	2.6	4.03	1.236
		Disagree	6	15.8		
		Neither agree or disagree	3	7.9		
		Agree	8	21.1		
		Strongly Agree	19	50.0		
		Total	37	97.4		
Continuous training on performance contracting		Strongly disagree	6	15.8	3.30	1.412
		Disagree	5	13.2		
		Neither agree or	7	18.4		

	disagree				
	Agree	10	26.3		
	Strongly Agree	9	23.7		
	Total	37	97.4		
Developing appropriate performance measures	Strongly disagree	2	5.3	3.95	1.268
	Disagree	5	13.2		
	Neither agree or disagree	3	7.9		
	Agree	10	26.3		
	Strongly Agree	17	44.7		
	Total	37	97.4		
Internal management system that provides data on implementation progress	Strongly disagree	0	0	3.95	1.104
	Disagree	6	15.8		
	Neither agree or disagree	5	13.2		
	Agree	11	28.9		
	Strongly Agree	15	39.5		
	Total	37	97.4		
Third party assessment to provide quality assurance and	Strongly disagree	10	26.3	2.92	1.516
	Disagree	6	15.8		

monitoring of the system	Neither agree or disagree	5	13.2		
	Agree	9	23.7		
	Strongly Agree	7	18.4		
	Total	37	97.4		
Availability of enabling legal and regulatory environment	Strongly disagree	3	7.9	3.41	1.301
	Disagree	8	21.1		
	Neither agree or disagree	6	15.8		
	Agree	11	28.9		
	Strongly Agree	9	23.7		
	Total	37	97.4		
Institutionalization of performance-oriented culture in the organization	Strongly disagree	1	2.6	3.65	1.184
	Disagree	8	21.1		
	Neither agree or disagree	4	10.5		
	Agree	14	36.8		
	Strongly Agree	10	26.3		
	Total	37	97.4		
Effective change management	Strongly disagree	1	2.6	3.42	1.079
	Disagree	8	21.1		

	Neither agree or disagree	7	18.4		
	Agree	15	39.5		
	Strongly Agree	5	13.2		
	Total	36	94.7		
Open communication	Strongly disagree	1	2.6	3.75	.967
	Disagree	3	7.9		
	Neither agree or disagree	7	18.4		
	Agree	18	47.4		
	Strongly Agree	7	18.4		
	Total	36	94.7		
Involvement of external parties in performance evaluation	Strongly disagree	5	13.2	3.14	1.437
	Disagree	11	28.9		
	Neither agree or disagree	4	10.5		
	Agree	8	21.1		
	Strongly Agree	9	23.7		
	Total	37	97.4		
Quarterly performance reports	Strongly disagree	3	7.9	4.03	1.320
	Disagree	3	7.9		

		Neither agree or disagree	3	7.9		
		Agree	8	21.1		
		Strongly Agree	19	50.0		
		Total	36	94.7		
Effective implementation of service delivery charter		Strongly disagree	1	2.6	3.69	1.191
		Disagree	7	18.4		
		Neither agree or disagree	5	13.2		
		Agree	12	31.6		
		Strongly Agree	11	28.9		
		Total	36	94.7		

Appendix V: Summary of the mean factorial scores and standard deviations of the factors that influenced success of performance contract implementation during the contract period 2006/2007

Factors	Responses	Frequency	Percentage	Mean	Stdev
Involvement of all staff at all levels in performance contracting	Strongly disagree	3	7.9	3.74	1.427
	Disagree	8	21.1		
	Neither agree or disagree	2	5.3		
	Agree	8	21.1		
	Strongly agree	17	44.7		
	Total	38	100.0		
Involvement of external experts in coming up with the performance contract targets	Strongly disagree	17	44.7	2.08	1.194
	Disagree	8	21.1		
	Neither agree or disagree	7	18.4		
	Agree	5	13.2		
	Strongly Agree	1	2.6		
	Total	38	100.0		
Provision of adequate resources for all activities in the performance contract	Strongly disagree	2	5.3	3.53	1.156
	Disagree	8	21.1		
	Neither agree or disagree	2	5.3		
	Agree	20	52.6		

				Mean	Std. Deviation
	Strongly Agree	6	15.8		
	Total	38	100.0		
Establishing a mechanism for getting regular feedback on the progress in the performance of the performance	Strongly disagree	2	5.3	3.87	1.143
	Disagree	3	7.9		
	Neither agree or disagree	6	15.8		
	Agree	14	36.8		
	Strongly Agree	13	34.2		
	Total	38	100.0		
Linking reward to performance	Strongly disagree	13	34.2	2.47	1.447
	Disagree	9	23.7		
	Neither agree or disagree	7	18.4		
	Agree	3	7.9		
	Strongly Agree	6	15.8		
	Total	38	100.0		
Applying sanctions to low performance	Strongly disagree	11	28.9	2.49	1.446
	Disagree	12	31.6		
	Neither agree or disagree	6	15.8		
		1	2.6		

	Agree				
	Strongly Agree	7	18.4		
	Total	37	97.4		
Linking training to performance	Strongly disagree	7	18.4	3.14	1.456
	Disagree	7	18.4		
	Neither agree or disagree	5	13.2		
	Agree	10	26.3		
	Strongly Agree	8	21.1		
	Total	37	97.4		
Institutionalization of corporate governance	Strongly disagree	4	10.5	3.53	1.310
	Disagree	4	10.5		
	Neither agree or disagree	9	23.7		
	Agree	10	26.3		
	Strongly Agree	11	28.9		
	Total	38	100.0		
Focused leadership	Strongly disagree	1	2.6	4.16	1.053
	Disagree	3	7.9		
	Neither agree or disagree	3	7.9		

	Agree	13	34.2		
	Strongly Agree	18	47.4		
	Total	38	100.0		
Managers participation in the negotiation process	Strongly disagree	1	2.6	4.08	1.148
	Disagree	5	13.2		
	Neither agree or disagree	2	5.3		
	Agree	12	31.6		
	Strongly Agree	18	47.4		
	Total	38	100.0		
Partnership and team work	Strongly disagree	1	2.6	4.03	1.236
	Disagree	6	15.8		
	Neither agree or disagree	3	7.9		
	Agree	8	21.1		
	Strongly Agree	19	50.0		
	Total	37	97.4		

Continuous training on performance contracting	Strongly disagree	6	15.8	3.30	1.412
	Disagree	5	13.2		
	Neither agree or disagree	7	18.4		
	Agree	10	26.3		
	Strongly Agree	9	23.7		
	Total	37	97.4		
Developing appropriate performance measures	Strongly disagree	2	5.3	3.95	1.268
	Disagree	5	13.2		
	Neither agree or disagree	3	7.9		
	Agree	10	26.3		
	Strongly Agree	17	44.7		
	Total	37	97.4		
Internal management system that provides data on implementation progress	Strongly disagree	0	0	3.95	1.104
	Disagree	6	15.8		
	Neither agree or disagree	5	13.2		
	Agree	11	28.9		
	Strongly Agree	15	39.5		
		37	97.4		

	Total					
Third party assessment to provide quality assurance and monitoring of the system	Strongly disagree	10	26.3		2.92	1.516
	Disagree	6	15.8			
	Neither agree or disagree	5	13.2			
	Agree	9	23.7			
	Strongly Agree	7	18.4			
	Total	37	97.4			
Availability of enabling legal and regulatory environment	Strongly disagree	3	7.9		3.41	1.301
	Disagree	8	21.1			
	Neither agree or disagree	6	15.8			
	Agree	11	28.9			
	Strongly Agree	9	23.7			
	Total	37	97.4			
Institutionalization of performance-oriented culture in the organization	Strongly disagree	1	2.6		3.65	1.184
	Disagree	8	21.1			
	Neither agree or disagree	4	10.5			
	Agree	14	36.8			
	Strongly Agree	10	26.3			
		37	97.4			

	Total				
Effective change management	Strongly disagree	1	2.6	3.42	1.079
	Disagree	8	21.1		
	Neither agree or disagree	7	18.4		
	Agree	15	39.5		
	Strongly Agree	5	13.2		
	Total	36	94.7		
Open communication	Strongly disagree	1	2.6	3.75	.967
	Disagree	3	7.9		
	Neither agree or disagree	7	18.4		
	Agree	18	47.4		
	Strongly Agree	7	18.4		
	Total	36	94.7		
Involvement of external parties in performance evaluation	Strongly disagree	5	13.2	3.14	1.437
	Disagree	11	28.9		
	Neither agree or disagree	4	10.5		
	Agree	8	21.1		
	Strongly Agree	9	23.7		
		37	97.4		

		Total				
Quarterly performance reports		Strongly disagree	3	7.9	4.03	1.320
		Disagree	3	7.9		
		Neither agree or disagree	3	7.9		
		Agree	8	21.1		
		Strongly Agree	19	50.0		
		Total	36	94.7		
Effective implementation of service delivery charter		Strongly disagree	1	2.6	3.69	1.191
		Disagree	7	18.4		
		Neither agree or disagree	5	13.2		
		Agree	12	31.6		
		Strongly Agree	11	28.9		
		Total	36	94.7		