FACTORS NECESSARY FOR THE DESIGN OF GOOD PERFORMANCE CONTRACTS FOR STATE CORPORATIONS IN KENYA

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

2006

DECLARATION

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

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

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DEDICATION

This project is dedicated first and foremost to my God whose providence, grace, and care I cherish.

I also dedicate the project to my dear husband Mr. Julius Langat, my children Cheruiyot, Cherono, and Cherop with lots of love.

I further dedicate the work to my parents Mr and Mrs Bartilol and my Brothers: Dr. Kigen and Chirchir. I cherish your love to me.

ACKNOWLEDGEMENTS

I am indebted to thank my good Lord for having brought me this far. His abundant love, care, and grace not only instilled in me that carried me throughout the MBA program but also cultivated in me profound hope and faith that my prayers will be answered at last.

It is my confession that the MBA program has been a very long, taxing and challenging journey, the successful completion of which has been the result of the support and encouragement from many quarters. I am indebted not only to people who gave me the inspiration to take up this program but also to those who gave me the guidance and assistance on what I have reported here.

My heartfelt gratitude and appreciation go to my supervisor Professor Peter K'Obonyo, under whose able supervision and guidance that this project has been a success. His advice, support, and constructive criticism throughout the study enabled me complete my project in time. I am convinced that without his support, this study would not have been a success.

Most especially, I am grateful to the managements of those state corporations who agreed to share their experiences and opinions; and patiently answered all questions. Their time and effort are acknowledged with gratitude. I wish them God's blessings.

I greatly appreciate the encouragement of my colleagues Irene Njiru, L. C. Kung'u, Richard Masavi and Audrey Rahedi throughout the program. Were it not for their interactive discussions and encouragement, the program could have proved unmanageable. I also give tribute to all other colleagues in my workplace who, in one way or another, offered constant encouragement and support whenever I approached them. May God bless them abundantly.

Last but not least, I am very grateful to my entire family, my husband Julius and children Cheruiyot, Cherono, and Cherop for their patience and love that they showed more especially when I would not have time for them. I am greatly thankful to my parents and brothers for their generous support and love during the program period. I earnestly thank them for their wishful prayers and encouragement. I especially thank my parents for their commitment and care to ensure that I acquire the education that I earnestly needed. May God's grace be with them.

Whereas I acknowledge input from all these persons in the research project, I take responsibility of any deficiencies and flaws therein.

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ABSTRACT

This research sought to determine the extent to which the necessary conditions for designing and implementing performance contracts were satisfied by State Corporations in Kenya. To achieve this objective, data were collected through a census survey. The entire sixteen pilot group State Corporations that signed performance contracts in 2004 were studied. Data was collected using a structured questionnaire with close ended questions. The questionnaire was administered by mail. Responses were received from fourteen state corporations giving a response rate of 87.5%.

The findings of the study showed that of the 39 necessary conditions that formed the variables of study, 46.2% of them were rated highly with mean scores of 4 and above. The remaining 53.8% of the conditions were rated moderately as necessary with mean scores of between 3 and 3.9. With regard to the extent to which the conditions were satisfied by the state corporations in the design and implementation of performance contracts, it was established that 33.3% of the conditions were satisfied to a large extent, 64.1% to a moderate extent and 2.6% to a small extent.

Generally, it was observed that not all conditions that were perceived to be necessary for the design and implementation of performance contracts were satisfied in the design and implementation of performance contracts by the State Corporations

CHAPTER ONE: INTRODUCTION

1.1 Background

Over the past decades, a number of developments have taken place in business management. The transformation of the value chain; influences of the global competition into the way business is done and the effects of liberalization of the economy; changing patterns of employment; and changes in the organizational structure are among the salient developments in business management. Globalization of markets and operations, liberalization and deregulation, together with changes within the political and social arena have forced organizations to evolve strategic options which give them competitive advantages against their competitors in the ever-changing and turbulent environment. These global trends have had profound and cyclic impact on company management styles and responses (Daniels and Redebaugh, 1995; Winslow, 1996; Lynch, 2000).

Many organizations have, in recent times, faced turbulent and rapid changing external conditions that are translated into complex, chaotic, multifaceted, fluid, and interlinked stream of initiatives affecting work and organizational design, resource allocation, and systems and procedures in a continuous attempt to improve performance (Huczynski and Buchanan, 2001). With these changes in the environment, the public sector has come under intense pressure to improve their operations and processes so as to deliver products and services more efficiently and at affordable prices to the taxpayer/customer, thereby forcing governments to institute reforms in the public sector. As a result, a number of management theories and techniques have been developed to improve the practice of management in public sector organizations. In most cases, these theories and techniques were initially developed for and applied in private sector settings from where attempts are subsequently made to transfer them to public sector context. Such attempts meet varying degrees of success (Schwella, 1998).

OECD (1999) identifies the approaches employed in public sector reform to address weaknesses in centralized and compliance based public management systems as institutional reforms in form of privatization, commercialization, contracting out and decentralization to local government; systematic reforms such as market type mechanisms, decentralization of management authorities, administrative modernization; and new methods of service delivery such as case management and one stop shops.

Changes in public corporate governance have led to a wave of reform that has swept developed countries, countries in transition from central planning and developing countries alike in response to these changes. Privatization has evolved as the centerpiece of national economic transformation. Despite the rapid spread of privatization programmes throughout the world, it is proving more difficult and slower than expected with substantial public sector enterprises remaining un-privatized. Public enterprises especially public monopolies in countries which have poor regulatory capacity, large enterprises with poor restructuring capacities or thin capital markets or highly concentrated ownership have not been totally privatized (UN Guidelines).

In response to delayed privatization, governments especially in developing countries enter into performance improvement contracts with public enterprises in the form of management contracts, regulatory contracts or performance contracts with public managers. Management contract is when the government contracts out management of the firm to private managers; regulatory contract is a relationship between the government and a regulated monopoly which may include agreements about pricing or performance and implicit expectations about powers of the regulator; and performance contract is a set of targets for public enterprise managers to attain (Shirley, 1996). The design of performance contracts in the public corporations will be the focus of this study.

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Larbi (2001) notes that one of the key planks of the new public management is its emphasis on performance or accountability for results. This has taken various forms, including setting explicit standards and measures of performance, more transparent methods of reviewing the performance of individuals and organizations and sometimes linking this to rewards and sanctions. Performance contracts or performance agreements are central to this trend and have become one of the tools for enhancing performance and accountability in the public sector. They are part of the efforts by governments to respond to 'demands for results and for demonstrated performance in respect to results' by managing and reporting on outputs and outcomes, and accounting for the connection between outputs and outcomes.

Performance based contracting has been identified by both the private and public sectors as an effective way of providing and acquiring quality goods and services within available budgetary resources. Whereas within the private sector profit orientation and competitiveness have necessitated the introduction of performance contracts, the public sector has taken long to embrace the practice especially in the developing countries (Mapelu, 2005; NPR, 1997; PBMSIG, 2001; Shirley, 1998).

Performance contracting has been widely used in the public sector by the developed countries such as New Zealand, USA, the Netherlands, and France among others with marked success. The experiences in developing countries though, citing case studies in China, India, Morocco, South Africa, Cote D'Ivoire, and Gambia among others, have shown mixed results (Mapelu, 2005; Trivedi, 2004; Shirley and Xu, 2001; Shirley, 1998).

In Kenya, performance-contracting concept can be traced to early and mid-1990s when a few state corporations (Kenya Railways, National Cereals and Produce Board, Kenya Airways, Mumias Sugar Company, and the defunct Kenya Posts and Telecommunications) attempted to develop variants of performance contracts. These were, however, not implemented or when implemented, were found unsuccessful. A new approach to the performance-contracting concept in line with the objectives of Economic Recovery Strategy for Wealth and Employment Creation (2003-2007) has been initiated with selected public enterprises on a pilot basis being subjected to performance contracts from October 2004. The government of Kenya started sensitizing the public sector corporations on the concept of performance contracting using the Performance Contracting Sensitization Manual (GoK 2005a) and thereafter developed an Information Booklet on Performance Contracts (GoK 2005b) to guide on the process of performance contracting.

1.1.1 Performance Contracts

Different scholars have defined performance contracts differently. However, they seem to hold similar views on the contents of performance contracts. According to Blasi (2002), a performance contract is an agreement between two parties that clearly specifies their mutual performance obligations, intentions and responsibilities. It is a freely negotiated performance agreement between the government, acting as the owner of a government agency, and the agency itself up to and including other levels of management levels of the organization. Most commonly, performance contracts include bonuses for a job well done, and, less often, salary decreases for poor performance. The increased interest in performance contracts coincides with demands for greater accountability.

Nellis (1989) observes that performance contracts are negotiated agreements as owners of a public enterprise, and the enterprise itself in which the intentions, obligations and responsibilities of the two parties are freely negotiated and then clearly set out. Shirley (1998) advocates the view that performance contracts seem to be a logical solution since similar contracts have been successful in the private sector in shifting them from ex anti control to ex post evaluation, thus giving managers the autonomy and incentives to improve efficiency and thereafter holding the managers accountable for results. Shirley and Xu (2000) observe that performance contracts are now widely used in developing countries where successful contracts have featured sensible targets, stronger incentives, longer terms, and managerial bonds but confined within competitive industries.

The classical models of performance measurement and management have been found to be ineffective with the drastic changes in the external environment. Traditional performance measures in the public sector have been able to drive performance necessitating the development of measures that take care of the intricate mix of stakeholders that are served by the public organizations. In the private sector, the principal measure of successful performance is profit, but in the public sector organizations, performance is judged against goals of their programs and whether the desired results and outcomes have been achieved.

A Performance Contract addresses economic, social or other tasks that an agency has to discharge for economic performance or for other desired results. It organizes and defines tasks so that management can perform them systematically, purposefully, and with reasonable probability of accomplishment. It also assists in developing points of view, concepts and approaches for determining what should be done and how to go about it. Performance contracts comprise determination of mutually agreed performance targets and review and evaluation of periodic and terminal performance (England, 2000)

According to Directorate of Personnel Management Training Manual (2005), performance contracts should focus on two levels: For the State Corporations, the first level is between the Government and the Board of Directors. Generally, Boards of Directors and management of public enterprises bind themselves to the achievement of mutually agreed targets, in return for operating autonomy and specified rewards. The second level is between the Board of Directors and the Chief Executive: Since the Board is not in charge of routine management of the Corporation, it assigns its responsibility assumed in the contract with Government through signing of a performance contract with the Chief Executive. For the Civil Service, the first level contract is signed between the President and the Ministers. Then the contract is signed between the Head of Public Service and the permanent secretaries with the respective Ministers counter-signing.

Performance Contracts (PCs) have their origins in the general perception that the performance of the public sector in general and government agencies in particular has consistently fallen below the expectations of the public. The problems that have inhibited the performance of government agencies are largely common and have been identified as excessive controls, multiplicity of principals, frequent political interference, poor management and outright mismanagement (Larbi, 2001)

Different approaches to public sector management have been employed to address these challenges. These approaches include first, new institutional structures and arrangements for managing and delivering programs and services (privatization, commercialization, contracting out and decentralization to local government). Second, systematic reforms (market type mechanisms, new budgeting and planning systems, administrative modernization, decentralization of management authorities); and lastly new methods of service delivery (case management and one-stop shops) (Larbi, 2001).

While these new methods are seen as addressing weaknesses in the more traditional centralized and compliance based public management systems, they bring their own set of problems. Most notably, management systems that are disaggregated, decentralized and devolved need a new framework to guide behavior. These changes do not rely on uniform rules for the management relationship nor for ensuring accountability in the use of public resources and delivery of public services. In view of the shortcomings evident in the systems, countries have adopted the system of performance contracting as a management tool.

Mann (1995) advances the view that the mechanism of performance contracting is among the multiple ways of improving efficiency of public enterprises. Malathy (1997) argues for the adoption of performance contracts as an alternative public enterprise reform strategy where privatization may be less feasible due to political or technical reasons, particularly those requiring sophisticated legal and regulatory structures or those that cannot be easily privatized for political reasons.

The fundamental principle of performance contracting is the devolved management style where emphasis is management by outcome rather than management by processes. It therefore provides a framework for changing behaviors in the context of devolved management structures. Governments view performance contracting as a useful vehicle for articulating clearer definitions of objectives and supporting new management monitoring and control methods, while at the same time leaving day-to-day management to the managers themselves. Performance Contracts include a range of management instruments used within the public sector to define responsibilities and expectations between parties to achieve mutually agreed results (England, 2000; Blasi, 2002).

1.1.2 The Kenyan Public Sector

When Kenya attained her independence in 1963, like many other emerging independent nations in the 1950s and 1960s, the Government took upon itself the task of providing basic needs and services in response to the needs and aspirations of its citizens. Consequently, apart from its traditional role of maintenance of law and order, the public service was given the following other responsibilities: coordination of national development; promotion of economic growth and development especially among the Africans; and managing industrial and commercial concerns where government had an interest.

Since independence, the Kenya government has encouraged the growth of a "mixed" economy where private and public corporations co-exist. Nearly all post-independence public corporations in Kenya were established in realization of commitments made in the ruling party's (Kenya African National Union) manifesto and reiterated thereafter in the Government of Kenya Sessional Paper No. 10 of 1965. These commitments included the elimination of hunger, disease, ignorance and poverty, the desalinization of the economy, the promotion of development and regional balance and increase in citizen participation in the economy and greater control of the economy.

James et al. (2002) as quoted by Njoroge (2003) define public utilities as a group of firms, mostly in the electric power, natural gas, and communications industries that are closely regulated by one or more government agencies. These agencies control entry into the business, set prices, establish product quality standards, and influence the total profits that may be earned by the firms. Moreover, these industries in most cases are already organized on monopolistic basis under exclusive franchises granted by the government authorities. Government commissions regulate their operations and rates, with the objective of keeping their activities in line with public interest and their rates subsidized at about cost-of-production level.

A unique feature of the companies providing these utility services is that they are nearly monopolies or oligopolies; the standards for quality are imposed by the regulatory agencies and consumers expect continuous uninterrupted service from utilities; to obtain a rate increase, utilities have to address all relevant public criticism; and the consumer controls the consumption and generates an instantaneous demand (Amitava, 1998 as quoted by Njoroge, 2003).

Public corporations in Kenya are established with the expectation that: they would earn a surplus and also accomplish other societal objectives not necessarily financial in nature; they would establish businesses to provide goods and services deemed necessary for development; they may engage in projects with large capital outlay, which while necessary for development are unattractive to the private sector; they may provide much needed direction, support to commercial enterprises and act as the consumer's watchdog (Nyamongo, 1993 in Njoroge, 2003).

The public sector in Kenya is faced with the challenge of poor and declining performance, which in turn inhibits realization of sustainable economic growth. The problem of poor performance in the Public Service is largely attributable to excessive regulations and controls, frequent political interference, multiplicity of principals, poor management, outright mismanagement and bloated staff establishment. In addition to regressing economic growth, declining performance in the Public Service has resulted to poor service delivery, degeneration of infrastructure and a severe brain drain. Mann (1995) notes that inefficiencies within commercially oriented enterprises (e.g. electricity, water, telephones) have clear national, financial and fiscal implications as their activities impact directly on overall public and private sector expenditures and resources.

Although commendable initiatives have been implemented in the past like civil service reform, ministerial rationalization etc, they however, lack the following important ingredients of performance improvement systems. The initiatives lacked a focus on outcome-oriented measures — measures that asked what results were achieved instead of what work was done for those results. The initiatives also had too many measures. With an absence of outcome-oriented performance measures, the emphasis has been placed entirely on the work that is done — the processes. Agencies often develop a litany of activity-oriented performance measures that focused on the work being done by front-line employees and not the mission-aligned results generated by the program. Those measures are often then used in decisions on funding, resource allocation and goal attainment in the absence of true outcome measures (Armstrong and Baron, 1998 in Njau, 2005).

There has been no coordination or common measures among similar programs. Across our government, we often have several programs performing similar activities, addressing similar issues, and thus facing similar challenges. There has been a severe lack of coordination and an absence of "common" performance measures, leaving programs with similar missions and customer bases alone in their attempts to improve performance. Instead of sharing their innovations, they idle with their frustrations.

Traditionally, the Civil Service management culture emphasized inputs and conformity to laws, regulations, and procedures rather than on outputs, efficiency and cost effectiveness. The government has committed itself to create a management culture in the public service that is focused on results. Emphasis on results requires a performance-oriented management culture that is guided by the right values and behaviors. The introduction of performance contracts is therefore, intended to introduce into the Civil Service a performance-oriented culture that will facilitate the attainment of desired results. The contracts are expected to instill accountability for results at the highest levels of in the government. In turn, the top-level officials will hold those below them accountable for results. Eventually, the culture of accountability will trickle down to all levels of government machinery (Njau, 2005).

A Performance Appraisal System will be designed to improve overall organizational performance by encouraging a high level of involvement and motivation, and increased staff participation in the planning and delivery of work. Performance contracts in the Civil Service have been designed and implemented in various countries including New Zealand. Malaysia. Canada, USA, and United Kingdom (DPM, 2005).

1.2 Statement of the Problem

The Economic Recovery Strategy for Wealth and Employment Creation (2003-2007) outlines the Kenyan government's commitment to improve performance, corporate governance, and management in the public service through the introduction of performance contracts. To this end, government has already introduced performance contracts in the management of state corporations. A pilot group of sixteen state corporations had already signed performance contracts by end of 2004 while the remainders were expected to be on board by 1st July 2005. However, they are still in the process of signing the contracts (Njau, 2005).

There are, however, many challenges encountered in the process of performance contracting in developing countries. UN guidelines note that failure in performance contracting implementation arise mainly in government's pressure to draft contracts with weak corporate management or heavily indebted enterprises; enterprises without reasonable up-to-dated information system; low degree of specification of goals; lack of legal framework; low management autonomy to pursue market based interests; low internalization of performance contracting throughout the enterprise; multiplicity and often conflicting goals; pursuit of non-commercial goals on instructions of government and attendant unclear indicators; price controls on inputs and outputs of monopolies; short period of contract; non-competitive incentive systems and non-independent evaluation systems among others. These issues/factors underpin conditions that are necessary for the design and implementation of performance contracts, particularly in the public sector.

Shirley (1998) and Okumu (2004) cite causes of failure in performance contracts as erosion of trust, lack of both intrinsic and extrinsic motivation; information asymmetry; insufficient commitment from both parties to the contract; poor incentives; impositions by governments; no prior negotiations and contract terms willingly agreed to; managers having various stakeholders who include politicians, which then brings about conflicting objectives.

Studies by Gichira (2001) and Odadi (2002) focused on rather different contexts and themes about performance management. Gichira conducted a survey on employee performance management systems in the privately owned security services industry in Kenya, which, however, did not address performance contracting. Odadi on the other hand studied the process and experience of implementing a new performance measurement tool but restricted his study only to the Balance Score Card, which also never considered the context of performance contracting.

Given the importance of the antecedent factors/conditions to the performance contracting, it is critical to establish to what extent these factors were given due consideration in performance contracting in the public corporations in Kenya. This study has been motivated by this concern. Thus, the pertinent research question is: to what extent were the antecedent conditions/factors to performance contracting taken into account when designing and executing performance contracts in public corporations in Kenya?

1.3 Objective of the Study

To determine the extent to which the generic necessary conditions for designing and implementing performance contracts were satisfied by state corporations in Kenya.

1.4 Significance of the Study

The findings of this study will useful to:

1. Public sector organizations in re-examining the conditions necessary for designing good performance contracts.
2. Government agencies in developing 'best practice' approaches in the designing of performance contracts that will ultimately achieve the intended effect.
3. Future scholars and researchers who may use it for reference and as a basis for further research.

CHAPTER TWO: LITERATURE REVIEW

1 Performance Management

rformance management is a management process designed to link the organization's jectives with those of individuals in such a way as to ensure that both individual and rporate objectives are as far as possible, met. Armstrong (1999) defines performance anagement as a strategic and integrated approach to delivering sustained success to ganizations by improving the performance of the people who work in them and by eveloping the capabilities of teams and individual contributors. Gekonge (2005) quotes orton and Robert (2004) who view performance management as the process of using rformance measurement information such as performance goals/objectives, measures, easurements, output and outcome evaluations, to effect positive organizational changes. ne changes will involve organizational culture, systems and processes the change ocess will also involve setting agreed upon performance goals and objectives, locating and prioritizing resources, informing managers to either confirm or change rrent strategy, policy and program direction to meet organizational goals and objectives d sharing the results of performance in pursuing those goals and objectives.

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

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. This presupposes that the internal and the external stakeholders, at the minimum, share a vision of the greatest good that demands the energies and commitment of all.

The process of performance management develops participation, awareness, a decentralized decision-making process, and responsibility for achieving the goals which have been formulated. As a consequence, there must be a goal-achievement analysis, in which the organization draws conclusions about what it is doing well, what it is not doing so well, and what can be improved. Thus, one of the main purposes of the performance management concept is to develop a learning organization culture where such systems may be seen as enablers of a circle of learning (Amaratunga and Baldry, 2002).

Today's environment demands institutions that are extremely flexible and adaptable. It demands institutions that deliver high quality services and demands them to be responsive to customer needs, offering services that lead by persuasion and incentives rather than command; institutions that give their stakeholders a sense of meaning and control, even ownership. All high performance organizations whether public or private are, and must b. interested in developing and deploying effective management systems, since t is only such systems that they can remain high-performing and competitive organizations (NPR, 1997).

Managers need to create strategic management systems that integrate all disciplines and all areas of operation of the organization in outcome based structures of the future the managers must critically look at their performance and compare it to others to assess where they are and where they want to go they need strategic management systems that can put these ideas into action so as to create organizations that: are healthy, balanced, efficient and effective; provide quality products and services to the satisfaction of customers as well as support for their employees; add value on results; measure and evaluate results and use such measurements and evaluations to improve future performance through effective strategies; and foster and promote strategic thinking among its members (Gekonge, 2005).

Performance management could be a tool that lets an organization track progress and direction towards strategic goals and objectives and should focus on whether the organization has met its performance goals and targets. By creating a performance management environment at the centre of its management systems, an organization will be able to evaluate organizational strategy in light of the recent performance management systems enable organizations to modify strategies to reflect real-time learning and the implementation of performance management systems gives organizations the capacity for strategic learning (Amaratunga and Baldry, 2002).

2.2 Performance Measurement Systems

According to Gekonge (2005), performance measurement is a process of assessing progress towards achieving predetermined goals and objectives it includes information on the efficiency with which resources are transformed into goods and services (outcomes), the quality of those goods and services (how well they are delivered to customers and the extent to which customers are satisfied), and outcomes (the results of the program activity compared to its intended purpose), and the effectiveness of the company operations, in terms of their specific contribution to creating a sustainable and increasing value for the stakeholders. Amaratunga and Badry (2002) quote Sink (1991) who suggests that performance measurement s a "mystery...complex, frustrating, difficult, challenging, important and misused" function. He notes that the level of performance s business attains is a function of the efficiency and effectiveness of the actions it undertakes, and thus: he defines performance measurement as the process of quantifying the efficiency and effectiveness of an action.

It is widely accepted that business performance is a multi-faceted concept and hence it is not surprising the variety of ways different disciplines take it business performance is measured from different perspectives due to the understanding of performance by the different disciplines. Measuring business performance is therefore beset by the challenge of defining the selected measures that can drive performance (NPR, 1999). Ittner and Larcker (2003) note the complexity of business performance by observing that businesses that do not scrupulously uncover the fundamental drivers of their units of performance face potential problems often ending up measuring too many things, trying to fill every perceived gap in the measurement system. The result is a wild profusion of peripheral, trivial or irrelevant measures.

Feurer and Chaharbaghi (1995) point out that the way in which performance measurement systems are used can differ widely depending on their application. For example, some performance measurement systems are used as a reporting mechanism (e.g financial reports) while other systems are employed for controlling the performance of products, employees and other resources within an organization (e.g costing systems, staff appraisal and reward systems). Performance measurement systems are also employed increasingly to develop an understanding about the competitive position of an organization within its business environment (e.g. customer satisfaction and competitor ranking systems). Barring their application, the functions of performance measurement systems are all facets of the same overall process of strategic change which comprises both cognitive and behavioral learning. Cognitive learning, by and large, relates to the process of strategy formulation and focuses on generating knowledge about the organization's competitive characteristics and value systems, while behavioral learning forms the basis of the implementation of these strategies. Complete learning can only be achieved if there is feedback at each stage of the strategic change process which includes strategy formulation, evaluation, and implementation.

Performance measurement systems should therefore be designed in such a way that they enable organizations to learn to: evaluate the internal and external environments of an organization; determine the underlying causes behind the existing situation together with their interrelationships; the identification of future trends and their implications for the organization; identify organization regarding the relationship between action and goals define and communicate new objectives throughout the organization; align operations and supporting objectives for instituting a common purpose; and develop a system for rewarding achievements which acts as a catalyst for motivating further change (Feurer and Chaharbaghi 1995).

Measurement systems are evolving from performance measurement to performance management integrated systems that link strategy, resources, and processes in coherent and understandable frameworks. Studies by Marr (2004), Ghalayni and Noble (1996), Kaplan and Norton (2001), and Kennerly and Neely (2003) indicate that performance measurement systems have evolved from the traditional uni-dimensional, financial focused systems to strategic integrated systems that are flexible to the drastic changes in the environment. Ghalayni and Noble (1996) note in their research on the evolution of integrated performance measurement systems that these changes take into consideration the fast changing business environment by incorporating strategic issues in the performance measurements. Feurer and Chaharbaghi (1995) also observe that over the years, a number of performance measurement systems have been developed which satisfy one or more, but not all of the requirements highlighted earlier. As a result, organizations experience a number of problems which are associated with accuracy, context, complexity, flexibility, alignment, speed, dynamics and behavior.

Performance measurement systems succeed only when the organization's strategy and performance measures are in alignment on realization that different models fall short in some dimensions NPR (1999) attempted to provide a conceptual framework for organizing performance measurement systems, which could include use of a balanced set of measures; matrix systems; target systems; target settings; benchmarking; and National Quality Award criteria. Batitci et al (2005) further note that it is generally agreed that businesses perform better if they are managed through formalized, balanced and integrated performance measures Kanji (2002) also observes that measuring performance by reference to a general and universal model has the additional benefits of allowing comparisons to be made within different segments of the organization, among different organizations and also across different industries/sectors and countries.

Significant research and development into the field of performance measurement has seen practitioners, consultants and academics develop various models, frameworks and methodologies. Frameworks and methodologies such as the balanced score card, the business excellence model, Key Performance Indicators, Performance Measurement Questionnaire, shareholder value added, activity based costing, and cost of quality; performance prism and competitive benchmarking have generated vast interest and activity. Each framework purports to be unique yet each offers a different perspective on performance (Kaplan and Norton, 2001; Neely, 1999; Ghalayani and Noble, 1996; Kanji, 2002).

These models however, have limitations since most are conceptual models and as such can hardly be considered as measurement models; most do not identify clearly which are the variables, how they can be measured and how they relate to each other; most try to focus top-down approach in formulation and implementation of strategies; most don't mention competition or technological development making the models somehow static; and due to the varied dimensions in business performance most fail in not being able to identify and measure these variables (Neely, 1999; Kimberely, 2003; Ghalayani and Noble, 1996).

PBMSIG (2001) in advocating for accountability for performance as a critical factor in any successful performance measurement criteria cite the inconsistent application of policies, procedures, resources, and/or consequences within the organization as undermining the accountability environment by weakening the perceived organizational commitment and credibility. They cite the key requirements for successful establishment of an accountability environment as leadership; reciprocation; equity; trust; transparency; clarity; balance; ownership; consequences; consistency; and follow up. They note that the main barriers include hidden agendas, favoritism, lack of leadership, lack of resources, lack of follow-up, lack of clarity, and data misuse.

Amaratunga and Baldry (2002) point out that making constructive use of performance measurement results is critical if an organization is to improve. Performance measures must provide intelligence for decision makers at all levels to assess towards achieving predetermined goals. Results of performance measurement must be properly analyzed and understanding what a particular result really means is important in determining whether or not it is useful to the organization. Data by themselves are not useful information but they can be when viewed from the context of organizational objectives and other factors. Proper analysis is imperative in determining whether or not performance indicators are effective and results are contributing to organizational objectives. Performance measurement results should be able to be used too determine gaps between specific strategic objectives and actual achievement whenever there is a gap between current results and an organization's strategic objectives, there is an opportunity for improvement.

Amaratunga and Baldry (2002) conclude that the primary function of any performance measurement system is to control organizational operations. It furnishes a language for describing expectations and performance, thus laying the foundation for discussion on how each individual can contribute to fulfilling the organization's vision. Thus, the performance measurement systems provide a basis for determining the appropriate efforts in the overall balance and for communicating such efforts through management control. In this way, the use of performance measurement systems facilitates learning the learning process places special emphasis on how different measures are interrelated. At both individual and organizational levels, a better understanding of the relationship between what is being done and how well the organization succeeds will be developed. Of course it is crucial how the performance systems will actually be used. What is needed is an appropriate incentive structure and practical arrangements for handling the information generated, so that it becomes attractive and feasible to develop a set of good practices, thus transforming performance measurement to performance management.

2.3 Performance Contracting

In the context of this study, performance contracting is process of drafting a written or negotiated agreement between government or its representative agency and the management of public enterprise and other public organizations directly delivering public services or between government and private managers of state assets wherein quantifiable targets are explicitly specified for a given period and performance is measured against targets at the end of the period (World Bank, 1995). According to OCED (1999), performance contract basically comprises two major components namely determination of mutually agreed performance targets and the review and determination of periodic and terminal performance.

OECD (1999) argues though, that performance contracting is but one element of broader public sector reform aimed at improving efficiency and effectiveness of public enterprises, while reducing total costs it looks at performance contracts as a range of management instruments used to define responsibilities and expectations between parties to achieve mutually agreed results. PBMSIG (2001) relates performance contracts, otherwise known as performance agreements in USA, to performance based management, which focuses on outcomes that support short and long term objectives by providing a systematic process of defining the job, the behaviors, and the measurement criteria critical to the process. It is simply a performance based contract which the principal defines its objectives and lets the agency decide how best to met them.

The dominant economic view of performance-based contracts essentially draws from the theory of agency costs that arise due to separation of ownership and control of large corporations. In a typical agency framework the assumption is that there is a mismatch between the interest of the owners and that of management who run the day-to-day operations of the organization a performance contract addresses economic, social or other tasks that an agency has to discharge for economic performance or for other desired results. The growing popularity towards performance contracting can be traced to the strong persuasive influence from bilateral agencies that advocate the use of this concept as an important element of public enterprise sector reforms (OCED (1999).

Aucoin and Heintzman (2000) note that one of the key planks of the new public management is its emphasis on performance or accountability for results. This has taken various forms, including setting explicit standards and measures of performance, more transparent methods of reviewing the performance of individuals and organizations and sometimes linking this to rewards and sanctions. Performance contracts or performance agreements are central to this trend and have become one of the tools for enhancing performance and accountability in the public sector. They are part of the efforts of governments to respond to 'demands for results and for demonstrated performance in respect to results' by managing and reporting on outputs and outcomes, and accounting for the connection between outputs and outcomes

According to Scott (1989), changes will have a major impact on amongst other things employees reward systems. Employers and employees will increasingly come to look for new and more appropriate ways of rewarding and being rewarded. Indeed with the advent of performance – related pay, in both the private and public sectors, there is already a gradual change from determining pay on the basis of a person's position and seniority to basing it on their contribution to the organization. These changes are being driven by four main concerns. The first is cost. The concern is that the present system is too expensive for companies that must conserve resources to be competitive. The second is equity. Organizations are concerned to ensure that employees are fairly rewarded for their efforts. The third is productivity. Organizations want to adopt reward systems that motivate high performance from employees. The fourth and last is entrepreneurial pressure. Companies are aware that the present system doesn't always adequately reward entrepreneurs for their efforts.

These concerns, Scott (1989) observes, are being approached through the application of three different though not necessarily mutually exclusive payment methods. The first is profit sharing, whereby the pay of an employee is pegged to a company's performance. This means that salaries are not fixed but instead are related by the use a predetermined formula, to the profit of the organization over a given period of time, usually the previous financial year. The second method is the use of individual performance bonuses, which are paid on top of basic salaries and are related to a predetermined performance target. This method has the advantage of enabling individuals to establish a direct correlation between their personal efforts and bonus payment they receive. The sums involved are - sometimes as much as twice basic salary. The last is the venture returns method, which represents perhaps the most radical break with the past. This is a scheme where entrepreneurs and inventors within an organization are given the opportunities to earn returns based on performance, in the market place, of the particular products or services for which they are responsible. Through this mechanism, the entrepreneur or inventor remains within the corporate fold but is paid on a similar basis to the owner of a small, independent business. The advantage is that they get the personal satisfaction and the reward of running their "own" business, whilst the larger organization benefits from having highly motivated and innovative people in charge of part of it operations.

The picture created by new reward systems is not, of course, totally rosy. Where there are winners, there may also be losers; not everyone will have the opportunity or drive to be an entrepreneur, nor or will be in a position that lends itself to some form of bonus system. Also many people who currently benefit from reward systems based on seniority and position may find they lose out. Older workers established in organizations and well down their chosen career path, could be particularly adversely affected by such changes. In addition, such payments systems may be divisive and create conflict (Scott, 1989).

Scott (19890 continues to stress that the need for teamwork, yet a situation where some members of the team are receiving high bonuses is bound to create tensions, which undermine co-operation and collaboration. It may be that profit – sharing schemes, which encompass everyone in the organization, overcome this threat to team working, but if everyone receives the same share of the profits irrespective of their individual contribution, the motivation effect is likely to be diminished. The result of these various approaches to pay could be minimal in terms of motivation, or could even be demotivating and indeed drive out the most experienced people in the organization.

Shirley and Xu (1997) argue that performance contracting assumes that government's objectives can be maximized, and performance improved, by setting targets that take into account the constraints placed on managers. For this to occur though, they argue that the principals must be willing to explicitly state their objectives, assign to them priorities and weights, translate them into performance improvement targets, provide incentives to meet those targets (or monitor the agents without incurring significant costs), and credibly signal their commitment to the contract. GoK (2005a) concludes that the fundamental principle of performance contracting is devolved management style with emphasis on outcomes rather than processes. OECD (1999) finally concludes that a performance contract is another management tool that ensures correlation between planning and implementation; coordination between various government agencies; an enabling public policy environment for other down stream reforms; and a fair and accurate impression about public enterprise performance.

The concept of performance contracting and its rationale varies from country to country. The widely accepted rationale for performance contracting is that public agencies have multiple objectives and multiple principals. These fuzzy objectives lead to poor financial performance in most cases. One view is that because public agencies are required to carry several functions they are unable to do any one of them very well. The other is that while a government agency may have done very well in achieving many of its objectives, its performance may be judged with reference to one objective to which it has not done well. A performance contract is a tool of remedying the situation of multiple objectives by agreeing the preferred objectives, which the owner would like achieved. It addresses the multiplicity of principals by requiring one agency to sign on behalf of all of them (Kaufmann, 2002). The multiple principals that government agencies must deal with in fulfilling their mandates emanate from Parliament, Ministry of Finance, Ministry of Planning and National Development, Parent Ministry and the Office of the President. In addition to creating fuzzy objectives, having multiple principals results in a 'denial' syndrome in the event that things are not working as expected and no one wants to take responsibility for the failure (GoK, 2005b).

OECD (1999) also observe that public enterprises may pursue certain social and non-commercial goals affecting its financial one which the performance contracts clarify early with the principal; public enterprises making losses may have tools which may indicate effort put and success achieved by the management in improving its operations; a mechanism to smooth the public enterprise-government interface and increase the autonomy of the enterprise; advocated as an alternative to privatization of public enterprises which are financially viable. In essence therefore, performance contracts seek to privatize the public sector style of management without necessarily transferring the ownership of the assets to private ownership.

The improvement in the wealth of nations is premised on the realization that comparative advantage depends on resource efficiency/endowment; competitive advantage of nations depends on public sector performance and public sector performance acts as a ceiling on private sector performance (Market failure vs. Government failure) (Porter, 1980).

Ring and Perry (1985) argue that whereas the private organization has entrepreneurial roots, public corporations are created by some higher controlling authority. This authority is usually composed of multiple and competing interests. Once the public corporation has been created, its mission and objectives are still defined by the controlling authority on which it is also dependent for its resources. Hatten (1982) points out that it is difficult for public sector managers to state the overall mission and objectives of their corporations as they are not so all-encompassing and measurable as increased profits, sales or market share. This view is also supported by Rainey et al (1976) where they mention the complexity of objectives for the public organization in terms of its greater multiplicity and diversity,

Regarding decision-making in public sector settings, Rider (1987) emphasizes that decision-making is a political process. In such a situation, decisions are typically not purely rational but rather Incremental and adaptive and predetermined by interactions of political influence and sudden changes in the environment. He further argues that strategic planning has to be accomplished in a pluralistic environment where power is distributed among many and varied interest groups.

Despite the fact that public corporations are created to ensure effective and efficient delivery of essential services, majority have been mismanaged and some have resulted to closure such as the Kenya Meat Commission, the Nyayo Bus Corporation, among others. In the Standard Newspaper of July 8, 2003, Gakuru stated that the solution to the problems afflicting our nation and the proper running of government is by improving efficiency as defined by the private sector. According to him, the government has reached to the private sector to acquire the "best and brightest" that the sector has to offer to fix the numerous government failures. This has not begun with the Narc Government and it is by no means confined to Kenya. Other developing nations are doing the same especially due to pressure from the World Bank, International Monetary Fund (IMF), the European Union and other bilateral and multilateral donors.

Effective strategic management is a process of creating a productive, more profitable alliance between the nature and demands of the business environment/ the organization's culture and resource base at its disposal, the way it utilizes them and the skills it uses in utilizing them. The challenge for public corporations therefore, lies in achieving this strategic fit because the business environment has become dynamic, turbulent and unpredictable. Public corporations have been criticized for inefficiencies and mismanagement. They are said to contribute to many of the problems hindering economic growth such as public sector deficits, domestic and foreign borrowing and misallocation of resources. They are characterized by widespread misuse of funds due to lack of proper internal management and control.

Some of these criticisms are supported by studies carried out (Aharoni, 1986; Berg, 1981 Jones and Moran, 1982; Nellis, 1986; Shirley, 1983). Specific problems associated with public corporations include: poor economic performance, overstaffing, overvalued assets, high debt ratios causing constant drain on the national treasury; and non responsive top management who are unable to take advantage of changing domestic and international commercial opportunities. Portions of the public sector have either been privatized or commercialized.

2.4 Types of Performance Contracts

Mann (1995) and GoK (2005a) trace the evolution of performance contracting to France in the 1970s when the French Prime Minister commissioned a committee headed by Simon Nora to investigate relations between public enterprises and the ministers. The concept was thereafter introduced in Franco-phone Africa in the 1980s in the National Railway in Senegal. Latin America and Asian countries followed later in the same decade Performance contracts are known by different countries such as performance agreements; contratos de rendimientos; contract du plan; contracts de program;

framework agreement; memorandum of understanding; purchase agreement; results framework; and letter of responsibility (GoK, 2005a; Trivedi, 2005).

OECD (1999) describe the wide variety of quasi-contractual agreements used to improve performance namely: framework agreements; budget contracts and resource agreements; organizational performance agreements; chief executive performance agreements; funder-provider agreements; intergovernmental performance contracts and partnership agreements; and customer service agreements.

Framework agreements cover overarching strategies and priorities for a department or agency which provides the CEO with autonomy in managing; budget contracts and resource agreements focus on the budget levels between the central budget office of finance ministry and CEO of a department or agency; organizational performance agreements are between a minister and CEO or between CEO and senior managers, breaking down overall strategic goals into programme elements, setting specific, often detailed operational, process and output oriented targets in exchange for increased autonomy. The chief executive performance agreements are between the minister and CEO (often to complement organizational performance agreements), or between senior management and staff at various levels; funder-provider agreements focus on clarifying responsibilities by separating the role of the funder and provider of the services. Intergovernmental performance contracts and partnership agreements are often linked to devolution of programmes or funding from national to sub-national government, providing state and local governments with funding in exchange for providing specified levels and quality of service. Finally, customer service agreements are statements of service standards provided by a programme or service to its clients specifying the quality and level of service expected (OECD, 1999).

OECD (1999) however advice that there is no agreed upon template or checklist for determining whether performance contracting is the right performance management tool for a particular management problem. They conclude that each type of contract emphasizes different objectives and priorities. They recommend that each contracting framework agreement; memorandum of understanding; purchase agreement; results framework; and letter of responsibility (GoK, 2005a; Trivedi, 2005).

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OECD (1999) however advice that there is no agreed upon template or checklist for determining whether performance contracting is the right performance management tool for a particular management problem. They conclude that each type of contract emphasizes different objectives and priorities. They recommend that each contracting arrangement depends on a contractual or quasi-contractual approach; features of the legal and administrative systems; risk management factors; and the broader governance arrangements within which the contract would function.

There are generally three types of Performance Contracts namely the French System, the Signalling System and Results Based Management. The French based system of Performance Contract does not allocate weights to targets. There is therefore no distinction between targets in terms of emphasis (by weighing them differently) and as such performance evaluation is affected by a high degree of subjectivity. It can only point out whether a particular target was met or not which creates great difficulty for making an overall judgment regarding agency performance. This system is practiced in France, the United Kingdom, Senegal, China, Ivory Coast and Benin (Mann, 1995; Trivedi, 2005; GoK, 2005a).

The Signaling System is based on the premise that public enterprise management should be appropriately guided to aim at improving real productivity and its efforts acknowledged and rewarded by an incentive system. It allocates weights and adopts a system of "five point" scale and "criteria weight" which ultimately result in calculation of "composite score" or an index of performance of the enterprise. It is thus hinged on the principle that given the capital stock at hand, how efficiently can the management use it? The system aims at motivating management to maximize return on the sunk capital. A primary criterion of evaluation is therefore evolved which reflects the improvement in real productivity, which in turn leads to an increase in socially relevant profits (as opposed to privately relevant profit). A PC is signed at the beginning of the year in which management is committed to improvement in real profitability. The Signaling System is practiced in Pakistan, Korea, Philippines, India, Bolivia and Gambia (Mann, 1995; Trivedi, 2005; GoK, 2005a).

Performance management is a systematic process of planning work and setting expectations, continually monitoring the performance, developing the capacity to perform and periodically rating performance. Results based management is one type of performance management process. The concept involves formulation of outcomes and goals, selection of outcome indicators, setting of specific targets to reach and dates for reaching them, assessment of whether the targets have been met and analyses and reporting of results (Armstrong, 2003).

The concept of results based management emphasizes the need for key internal and external stakeholders to be consulted and engaged in setting outcomes, indicators and targets. Whereas performance contracts focus on outcome and results, result based management is a system that is used by government agencies to achieve specified targets by focusing on inputs, processes and outcomes. Results based management is therefore a system that is used to mobilize the entire staff in an organization in achieving the agreed targets (Dessler, 2003).

2.5 Conditions Necessary for the Design of Good Performance Contracts

OECD (1999) note that performance contracting regime is not a substitute for overall performance management as it is merely but one element of a framework for generating desired behaviors in the context of devolved management structures, which is part of an overall resource allocation system. A comparative analysis of international experiences by the United Nations supports this view by adding that the differences in design and implementation of performance contracts and associated government policies in force in particular countries are major factors of the success or failure of performance contracts. It concludes that each country has its own unique legal, institutional and cultural environment hence need to customize its approach to its own needs and circumstances.

PBMSIG (1999) argues for a structured approach as is used in the US, which focuses on strategic performance objectives; provides a mechanism for accurate reporting; bring all stakeholders into planning and evaluation of performance; provide a mechanism for linking performance to budget expenditures; provide a framework for accountability; and share responsibility for performance improvement. They suggest a six-step process that includes establishing a successful program which include the definition of an original vision, mission and strategic objectives; establishment of an integrated performance measurement system; establishment of accountability for performance; establishment of a process/system for collecting performance data; one for analyzing, receiving and reporting performance data; and one for using performance data to drive performance improvement.

GoK (2005a), OECD (1999), Trivedi (2004), and Mann (1995) advance the view that a standard performance contract should consist three sub-systems, namely: Performance Information System, Performance Evaluation System, and Performance Sanction/Incentive System. Performance Information System relates to the need for reasonable information balance between Government and the Government Agency in the process of negotiating performance targets; Performance Evaluation System comprises of performance measurement criteria and evaluation systems; while Performance Sanctions/Incentive System relates to a system that links rewards/sanctions with measurable performance.

According to OECD (1999), fundamental/necessary conditions for the design of good performance contracts are categorized into those of criteria and those of institutional structures. On criteria conditions, the performance criteria to be included in the contracts must be clearly defined and easily understood; they should be fair to the manager, as they should encompass only areas within the control of public enterprise management; and the criteria for evaluating public enterprise performance must be fair to the country.

On institutional conditions, performance targets are to be negotiated and not imposed arbitrarily from top government; public enterprise managers are to be left free to manage the enterprise within agreed parameters once the performance targets shall have been set; performance is to be judged at end of year systematically against the targets negotiated at the beginning of the year; to carry out performance evaluation there is need to have balance in availability of information between the evaluator and the evaluated; to establish trust , evaluation need to be done by expert third party independent evaluators who can demand information and make binding recommendations; and performance is be linked to a system of incentives for good performance and sanctions for poor performance.

However, there is no step-by-step approach or process cited in the literature to be followed by public sector companies in developing countries. PBMSIG (2001), NPR (1999) and OECD (1999) however cite leadership in championing the course; existence of a strategic plan with clear organization objectives; a conceptual framework to enable the organization to focus its measures; commitment by every one since the degree of commitment will determine the degree of success; and involvement of all stakeholders, customers, and employees both by the level and timing of employee involvement individually tailored depending on size and structure of the organization as the dimensions forming major components of an integrated performance measurement system whose inclusion would result in good performance contracts and eventual successful implementation.

Other essential componential dimensions cited include a sense of urgency to move to a new and enhanced performance measurement and management regime; communication; ongoing feedback process to make adjustments and keep it operating efficiently; adequate resources in terms of money, equipment and people; customer identification; learning and growth to keep the organization in pace with emerging technologies and trends; environmental scanning of both the external and internal environments; enhanced organizational capacity centered on people and processes in ensuring that inefficient and ineffective processes do not get in the way of the drive to success; and institutionalized accountability for performance and with focus on results.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

The study was a census survey because of the cross-sectional nature of the data.

3.2 Population of Study

The population of interest in this study consisted of all the sixteen pilot group state-owned corporations whose managements had signed performance contracts in 2004. The list (Appendix II) of these state corporations was obtained from the Department of Personnel Management (DPM), Office of the President.

3.3 Data Collection Method

The study used primary data which was collected using a structured questionnaire consisting of both closed-ended and open-ended questions. The questionnaire was divided into three parts. Part A focused on data on organizational profile and the bio data of the respondents; Part B sought data on performance contracting and the conditions necessary for designing good performance contracts in the organization; and Part C obtained information on the extent to which the organizations have considered/met the conditions necessary in the design of their contracts. The questionnaire was administered by way of mail and 'drop and pick' method. The respondents of the study were those charged with the responsibility of designing and administering performance contracts i.e. the human resource managers and senior administrative officers whose positions also require the signing of performance contracts.

3.4 Data Analysis

Data obtained was analyzed using descriptive statistics (percentages, frequencies, and means). Percentages were used to summarize and reflect the relative weight of how the conditions for designing and implementing performance contracts as perceived by the respondents. The frequency distributions were used to examine the distribution of responses to each of the conditions. The means showed the magnitude of the weight a particular condition was given. To be able to obtain the percentages, frequencies and means, the edited data was coded, labeled and then input into the statistical package for social sciences (SPSS), which was then run to generate the values for interpretation. The analyzed data was then presented in tables.

CHAPTER FOUR: DATA ANALYSIS AND DISCUSSIONS

4.1 Introduction

The study was designed with the sole objective of determining the extent to which the necessary conditions for designing and implementing performance contracts were satisfied by state corporations in Kenya. To achieve this objective, data were collected from respondents drawn from the top management of these corporations. The study specifically targeted human resource managers and senior administrative officers of the corporations that signed performance contracts. These people are knowledgeable in the implementation of the said contracts. Out of the sixteen State Corporations which formed the pilot group, all of which were served with the questionnaires, fourteen responded by returning filled questionnaires. This formed 87.5% response rate, which the study considers suitable for analysis.

To achieve the study objective, the respondents were required to respond to general organizational and personal demographic questions. They were then presented with statements describing the conditions necessary for the design and implementation of performance contracts and the extent to which these conditions were satisfied in their respective organizations. They were required to rate on a scale of 1 to 5 their perception of each statement as a necessary condition for successful introduction and implementation of performance contracts. This served to indicate which conditions were considered necessary and whether or not they formed the basis on which the design and implementation of performance contracts in the state corporations was done. The findings of the study are presented and discussed in this chapter.

4.2 Organizational Profile

Organizational profile information that was sought by the study included that concerning included the corporation's years of existence, size, incorporation and the ministries under which they operate. It was established that all the Corporations have been in existence for more than two decades, which means that each corporation has experienced both the peak and lean moments that have characterized the Kenyan economy during this period and have had impact on their performance. The study further established that all the Corporations operate under the State Corporations Act but operate under different ministries with which they signed performance contracts. The study used the number of employees to measure the size of a corporation and the findings are as shown in Table 1 below.

Table 1: Analysis of Corporations by Size (Number of employees)

	Frequency	Percent
Below 500	2	14.3
501-1000	2	14.3
1001-2000	4	28.6
Over 2000	6	42.9
Total	14	100.0

The findings, as shown in table 1, indicate that 42.9% of the corporations were very large with over 2000 employees, 28.6% were large while 14.3% were fairly large with 1001-2000 and 502-1000 employees, respectively. The rest 14.3%, were small in size with less than 500 employees. The size of any organization can have impact on the performance management and measurement because it indicates the reporting structure and the span of control. Thus, the size is worth considering in a study of performance contract.

4.3 Respondents' Profile

The study sought information on the length of period respondents have been with the organizations, whether their positions are advertised to the general public when they fall vacant, whether job descriptions reflect respondents' current functions and responsibilities, and whether their positions required signing of performance contracts. How long one has served in a particular organization was also considered by the study to provide indicative information on his/her comprehensive understanding of the Corporation's affairs. Results of the study are presented in Tables 2 and 3 below.

Table2: Length of service in the corporations

	Frequency	Percent
1-3 Yrs	4	28.6
4-6 Yrs	8	57.1
7-10 Yrs	2	14.3
Total	14	100.0

The evidence presented in table 2 show that most of the respondents (57.1%) have been with their respective Corporations for a period of between 4 and 6 years, 14.3% have served for between 7 and 10 years while 28.6% of them for between 1 and 3 years.

Table 3: Factors Considered in Performance Contracts.

Factor	Response	Frequency	Percent
Advertising of respondents' job positions to the general public	Yes	14	100
	No	0	0
Reflection of respondents' current functions and responsibilities in the job description	Yes	14	100
	No	0	0
Respondents' job positions require signing of performance contracts	Yes	14	100
	No	0	0

As shown in table 3, all respondents (100%) responded "Yes" to each of the above factors. This implies that the State Corporations fill their top positions through competitive selection of candidates and that the selected candidates have their functions and responsibilities well reflected in the job descriptions, which facilitates the signing of performance contracts for purposes of accountability for results.

4.4 Conditions Necessary for the Design and Implementation of Performance Contracts.

The main objective of this study was to determine the extent to which the necessary conditions for designing and implementing performance contracts were satisfied by the first batch of state corporations that signed performance contracts with the Government of Kenya.

To achieve this objective, the respondents were presented with statements describing such conditions and were required to rate, on a 5-point likert scale, the extent to which they agreed or disagreed that a particular condition was necessary. The responses to this set of statements were analyzed to obtain frequencies, percentages, and mean scores. The results are presented in table 4.

For the purpose of analysis, the respondents' ratings o each condition are averaged and then classified as low, medium or high. Mean ratings below 3, 3 to 3.9, and 4 and above are considered low, medium and high respectively. High rating means that he condition is absolutely necessary, medium rating implies that it is necessary, while low rating suggests that the impact of the condition on performance contracting is minimal or insignificant.

Table 4: Necessary Conditions for the Design and Implementation of good Performance Contracts.

Variable	Responses	Frequency	Percent	Mean
Clear definition of an original vision, mission and strategic performance objectives.	Indifferent	3	21.4	4.0714
	Agree	7	50.0	
	Strongly agree	4	28.6	
	Total	14	100.0	
Involving all stakeholders in the development of the organization's performance measures and targets.	Disagree	2	14.3	3.2857
	Indifferent	7	50.0	
	Agree	4	28.6	
	Strongly agree	1	7.1	
	Total	14	100.0	
Establishment of an integrated performance measurement system.	Indifferent	8	57.1	3.4286
	Agree	6	42.9	
	Total	14	100.0	

Establishment of a system of accountability for performance results.	Indifferent	1	7.1	4.3571
	Agree	7	50.0	
	Strongly agree	6	42.9	
	Total	14	100.0	
Establishment of a system for collecting performance data.	Indifferent	1	7.1	4.2857
	Agree	8	57.1	
	Strongly agree	5	35.7	
	Total	14	100.0	
Establishment of a system for receiving, analyzing, receiving, and reporting performance data.	Indifferent	1	7.1	4.2143
	Agree	9	64.3	
	Strongly agree	4	28.6	
	Total	14	100.0	
Putting up a performance information system that relates to the need for reasonable information balance between the government and the government agency in the process of negotiating performance targets.	Indifferent	6	42.9	3.5714
	Agree	8	57.1	
	Total	14	100.0	
Putting up a performance evaluation system with performance measurement criteria and evaluation systems	Disagree	1	7.1	3.7143
	Indifferent	3	21.4	
	Agree	9	64.3	
	Strongly agree	1	7.1	
	Total	14	100.0	
Putting up of performance sanctions/incentives that links rewards/sanctions into measurable performance	Indifferent	1	7.1	4.4286
	Agree	6	42.9	
	Strongly agree	7	50.0	
	Total	14	100.0	
Inclusion of a clearly defined and easily understood criteria in the contracts	Indifferent	3	21.4	4.0714
	Agree	7	50.0	
	Strongly agree	4	28.6	
	Total	14	100.0	
Having criteria that will be fair to the managers and the country	Indifferent	1	7.1	4.2143
	Agree	9	64.3	
	Strongly agree	4	28.6	
	Total	14	100.0	
Having negotiated performance targets and not those imposed arbitrarily	Indifferent	6	42.9	3.8571
	Agree	4	28.6	
	Strongly agree	4	28.6	
	Total	14	100.0	

Assuring the existence of managers' freedom for them to manage the organization within agreed parameters once performance targets have been set	Disagree	1	7.1	3.7857
	Indifferent	3	21.4	
	Agree	8	57.1	
	Strongly agree	2	14.3	
	Total	14	100.0	
Providing for a systematic judgment of performance at the end of the year against the negotiated targets	Disagree	1	7.1	3.8571
	Indifferent	3	21.4	
	Agree	7	50.0	
	Strongly agree	3	21.4	
	Total	14	100.0	
Providing that evaluation is to be done by expert third party independent evaluators to establish trust	Disagree	3	21.4	3.4286
	Indifferent	5	35.7	
	Agree	3	21.4	
	Strongly agree	3	21.4	
	Total	14	100.0	
Linking performance to a system of incentives for good performance and sanctions for poor performance	Indifferent	1	7.1	4.4286
	Agree	6	42.9	
	Strongly agree	7	50.0	
	Total	14	100.0	
Existence of the strategic plan with clear organizational objectives	Indifferent	1	7.1	4.5000
	Agree	5	35.7	
	Strongly agree	8	57.1	
	Total	14	100.0	
Having in place a conceptual framework to enable the organization focus its measures	Indifferent	3	21.4	4.0714
	Agree	7	50.0	
	Strongly agree	4	28.6	
	Total	14	100.0	
Stipulation of the degree of commitment required by everyone in the organization more so those who are party to the contract	Indifferent	2	14.3	4.3571
	Agree	5	35.7	
	Strongly agree	7	50.0	
	Total	14	100.0	
Existence of a sense of urgency to move to a new and enhanced performance measurement and management regime	Disagree	2	14.3	3.5714
	Indifferent	5	35.7	
	Agree	4	28.6	
	Strongly agree	3	21.4	
	Total	14	100.0	

Establishment of the true indebtness of the corporation	Disagree	4	28.6	3.2857
	Indifferent	4	28.6	
	Agree	4	28.6	
	Strongly agree	2	14.3	
	Total	14	100.0	
The existence of a legal framework to govern the development and implementation of performance contracts	Indifferent	5	35.7	3.7857
	Agree	7	50.0	
	Strongly agree	2	14.3	
	Total	14	100.0	
Management autonomy to pursue market based interests	Disagree	6	42.9	3.0000
	Indifferent	4	28.6	
	Agree	2	14.3	
	Strongly agree	2	14.3	
	Total	14	100.0	
Internalization of performance contracting throughout the organization	Disagree	2	14.3	3.9286
	Indifferent	2	14.3	
	Agree	5	35.7	
	Strongly agree	5	35.7	
	Total	14	100.0	
Specificity and not multiplicity and often conflicting goals	Disagree	3	21.4	3.2857
	Indifferent	5	35.7	
	Agree	5	35.7	
	Strongly agree	1	7.1	
	Total	14	100.0	
Prior determination of the period of the performance contract	Disagree	1	7.1	3.5714
	Indifferent	5	35.7	
	Agree	7	50.0	
	Strongly agree	1	7.1	
	Total	14	100.0	
Existence of competitive incentive systems	Disagree	1	7.1	4.5000
	Agree	4	28.6	
	Strongly agree	9	64.3	
	Total	14	100.0	
Enhanced organizational capacity centered on people and processes in ensuring that inefficient and ineffective processes do not get in the way of the drive to success	Disagree	1	7.1	4.1429
	Indifferent	2	14.3	
	Agree	5	35.7	
	Strongly agree	6	42.9	
	Total	14	100.0	
Institutionalized accountability for performance with focus on	Agree	7	50.0	4.5000
	Strongly agree	7	50.0	
	Total	14	100.0	

results				
Having open communication channels to external stakeholders especially customers on the organization's performance expectations	Agree	10	71.4	4.2857
	Strongly agree	4	28.6	
	Total	14	100.0	
Existence of a reformed reporting structure to assist employees in performance improvement	Indifferent	2	14.3	4.0714
	Agree	9	64.3	
	Strongly agree	3	21.4	
	Total	14	100.0	
Absence of occasional political interference and undue influence that will inhibit the organization's ability to meet performance goals and expectations	Strongly disagree	1	7.1	3.2143
	Disagree	3	21.4	
	Indifferent	4	28.6	
	Agree	4	28.6	
	Strongly agree	2	14.3	
	Total	14	100.0	
Existence of organizational culture and structure that provide for cross-functional support in meeting the expected targets	Disagree	1	7.1	3.9286
	Indifferent	2	14.3	
	Agree	8	57.1	
	Strongly agree	3	21.4	
	Total	14	100.0	
Conformation between the weights provided for by the government and those earlier adopted by the organization	Indifferent	6	42.9	3.6429
	Agree	7	50.0	
	Strongly agree	1	7.1	
	Total	14	100.0	
Assurance of adequate resource allocation to all in order to assist in meeting the performance targets	Disagree	1	7.1	4.0000
	Indifferent	1	7.1	
	Agree	9	64.3	
	Strongly agree	3	21.4	
	Total	14	100.0	
Prior initiation of appropriate training and coaching on all aspects of performance contracting	Indifferent	1	7.1	4.2143
	Agree	9	64.3	
	Strongly agree	4	28.6	
	Total	14	100.0	

Existence of visible and vocal support to and buy-in of performance contracting by mangers in all levels of management	Disagree	1	7.1	3.4286
	Indifferent	7	50.0	
	Agree	5	35.7	
	Strongly agree	1	7.1	
	Total	14	100.0	
Prior re-evaluation of processes, regulations and policies to empower the employees meet performance targets	Disagree	2	14.3	3.5714
	Indifferent	4	28.6	
	Agree	6	42.9	
	Strongly agree	2	14.3	
	Total	14	100.0	
Factoring in of mitigating factors that are out of control of those who sign performance contracts during the design stage	Disagree	3	21.4	3.1429
	Indifferent	6	42.9	
	Agree	5	35.7	
	Total	14	100.0	

It is evident from table 4 above that 46.2% of the 3 conditions that were presented to the respondents had a mean response score of 4 and above, indicating that slightly less than 50% of the conditions were considered absolutely necessary for the introduction and implementation of performance contracts. The remaining 21 conditions (53.8%), had mean response scores of between 3 and 3.9, meaning that, according to the way the respondents perceive of them, they were moderately necessary conditions for the design and implementation of performance contracts.

The conditions that were highly rated (with mean scores of 4 and above) include: clear definition of an original vision, mission and strategic performance objectives; establishment of a system of accountability for performance results; establishment of a system for collecting performance data; establishing of a system for receiving, analyzing, and reporting performance data; putting up a performance evaluation system with performance measurement criteria and evaluation systems; putting up performance sanctions/incentives system that links rewards/incentives to measurable performance; inclusion of a clearly defined and easily understood performance measurement criteria in the contracts; having criteria that will be fair to the managers an the country at large; linking performance to a system of incentives for good performance and sanctions for poor performance; existence of the strategic plan with clear organizational objectives; having in place a conceptual framework to enable the organization focus its measures; stipulation of the degree of commitment required by everyone in the organization more so those who are party to the contract; existence of competitive incentive systems; enhanced organizational capacity centered on people and processes in ensuring that inefficient and ineffective processes do not get in the way of the drive to success; institutionalized accountability for performance with focus on results; having open communication channels to eternal stakeholders especially customers on the organization's performance expectations; existence of a reformed reporting structure to assist employees in performance improvement; assurance of adequate resource allocation to al in order to assist in meeting the performance targets; and prior initiation of appropriate training and coaching on all aspects of performance contracting.

However, it should be noted that even though the above conditions were highly rated by the respondents, the findings indicate that the responses were variously distributed across the various respondents with regard to specific conditions. For instance, from table 4 above, even though most conditions have response mean scores of 4 and above, there are proportions of respondents who were indifferent on the necessity of each of the respective conditions in the design and implementation of performance contracts. For example, 21.4% of the respondents were indifferent on the necessity of clear definition of an original vision, mission and strategic performance objectives; 7.1% of them were also indifferent with regard to the establishment of a system of accountability for performance results; establishment of a system for collecting performance data; establishment of a system for receiving, analyzing, receiving, and reporting performance data: existence of the strategic plan with clear organizational objectives among others while 14.3% were indifferent on with regard to having in place a conceptual framework to enable the organization focus its measures and stipulation of the degree of commitment required by everyone in the organization more so those who are party to the contract. These proportions are quite significant and any generalizations made with respect to the response ratings should take them into account.

On the other hand, conditions that were rated at medium level(with mean scores of between 3 and 3.9) include: involving all stakeholders in the development of the organization's performance measures and targets; establishment of an integrated performance measurement system; putting up a performance information system that relates to the need for reasonable information balance between the government and the government agency in the process of negotiating performance targets; putting up a performance evaluation system with performance measurement criteria and evaluation systems; having negotiated performance targets and not those imposed arbitrarily; assuring the existence of managers' freedom for them to manage the organization within agreed parameters once performance targets have been set; providing for a systematic judgment of performance at the end of the year against the negotiated targets; and providing that evaluation is to be done by expert third party independent evaluators to establish trust among others.

Similarly, as with those conditions that were highly rated, conditions that were moderately rated indicated varied distribution of respondents on each particular condition. For instance, involving all stakeholders in the development of the organization's performance measures had 35.7% of the respondents agreeing that the condition is necessary even though the response mean score was 3.3. Other conditions with response mean scores between 3 and 3.9 had proportions of respondents who both agreed and strongly agreed that they are necessary and some of the proportions were significant to warrant cautious generalizations. This implies that even though the conditions' mean score were below 4, there is a relatively high proportion of respondents (between 7.1% and 64.3%), who indicated that the conditions were necessary. Therefore, any generalization of the research findings must be made with caution. The findings generally show that 58.3% of the conditions are necessary.

4.5 Extent to which the Necessary Conditions for the Design and Implementation of Performance Contracts were satisfied by the State Corporations.

The respondents were required to indicate the extent to which the necessary conditions for introducing and implementing performance contracts were satisfied by their respective Corporations. They were asked to rate, on a 5-point scale, the extent to which their organizations satisfied the above conditions. The frequencies, percentages and mean scores were then computed and are presented in table 5.

For each of the conditions, the distribution of the responses across the respondents is shown. Their respective relative ratings are also shown. The study considered that a condition with a mean score of below 3 indicate that the condition was lowly rated; that with a mean score of between 3 and 3.9 as moderately rated and that with a mean score of 4 and above as highly rated. This then implies that conditions with mean score of 4 and above were to a very great extent satisfied by the state corporations in the design and implementation of performance contracts; those with mean scores of between 3 and 3.9 would indicate that the state corporations satisfied these conditions to a moderate extent; while those with mean scores of below 3 would indicate that the conditions were satisfied to a small extent. Generally, the findings indicate that most conditions were satisfied to a moderate extent. However, a few exceptions are inherent in the findings as shown in the table below.

Table5: Extent to which the Necessary Conditions were satisfied in the Design and Implementation of Performance Contracts in State Corporations.

Variable	Responses	Frequency	Percent	Mean
The original vision, mission and strategic performance objectives were clearly defined.	To a fairly large extent	7	50.0	3.6429
	To a large extent	5	35.7	
	To a very large extent	2	14.3	
	Total	14	100.0	

All stakeholders were involved in the development of the organization's performance measures and targets.	To a small extent	2	14.3	3.4286
	To a fairly large extent	5	35.7	
	To a large extent	6	42.9	
	To a very large extent	1	7.1	
	Total	14	100.0	
An integrated performance measurement system was established prior to designing of performance contracts.	To a small extent	2	14.3	3.4286
	To a fairly large extent	5	35.7	
	To a large extent	6	42.9	
	To a very large extent	1	7.1	
	Total	14	100.0	
A system for accountability of performance results was established prior to designing of performance contacts.	To a fairly large extent	2	14.3	4.1429
	To a large extent	8	57.1	
	To a very large extent	4	28.6	
	Total	14	100.0	
A system for collecting performance data was put in place before the design of performance contracts.	To a fairly large extent	2	14.3	4.2143
	To a large extent	7	50.0	
	To a very large extent	5	35.7	
	Total	14	100.0	
A system for analyzing, receiving, and reporting performance data was established prior to designing of performance contracts.	To a small extent	1	7.1	4.0000
	To a fairly large extent	4	28.6	
	To a large extent	3	21.4	
	To a very large extent	6	42.9	
	Total	14	100.0	

A performance information system that relates to the need for reasonable information balance between the government and the government agency in the process of negotiating performance targets was put up first.	To a small extent	1	7.1	3.7143
	To a fairly large extent	4	28.6	
	To a large extent	7	50.0	
	To a very large extent	2	14.3	
	Total	14	100.0	
A performance evaluation system with performance measurement criteria and evaluation systems was put up prior to designing of performance contracts	To a small extent	1	7.1	3.9286
	To a fairly large extent	3	21.4	
	To a large extent	6	42.9	
	To a very large extent	4	28.6	
	Total	14	100.0	
Performance sanctions/incentives that links rewards/sanctions into measurable performance were established prior to designing performance contracts	To a small extent	1	7.1	4.2143
	To a fairly large extent	1	7.1	
	To a large extent	6	42.9	
	To a very large extent	6	42.9	
	Total	14	100.0	
Clearly defined and easily understood performance measurement criteria in the contracts were included considered in the design of performance contracts	To a fairly large extent	2	14.3	3.9286
	To a large extent	11	78.6	
	To a very large extent	1	7.1	
	Total	14	100.0	
The measurement criteria in the performance contracts was fair to the managers and the country	To a small extent	1	7.1	3.7857
	To a fairly large extent	2	14.3	
	To a large extent	10	71.4	
	To a very large extent	1	7.1	
	Total	14	100	
Performance targets and measures were freely negotiated and not imposed arbitrarily	To a small extent	1	7.1	3.2857
	To a fairly large extent	8	57.1	
	To a large extent	5	35.7	
	Total	14	100.0	

The existence of managers' freedom for them to manage the organization within agreed parameters once performance targets have been set was assured prior to designing of performance contracts	To a small extent	2	14.3	3.5714
	To a fairly large extent	4	28.6	
	To a large extent	6	42.9	
	To a very large extent	2	14.3	
	Total	14	100.0	
The performance contracts provided for a systematic judgment of performance at the end of the year against the negotiated targets	To a small extent	1	7.1	3.5000
	To a fairly large extent	6	42.9	
	To a large extent	6	42.9	
	To a very large extent	1	7.1	
	Total	14	100.0	
It was provided in the performance contracts that evaluation is to be done by expert third party independent evaluators to establish trust	To a small extent	2	14.3	3.2143
	To a fairly large extent	7	50.0	
	To a large extent	5	35.7	
	Total	14	100.0	
The performance contracts have linked performance to a system of incentives for good performance and sanctions for poor performance	To a fairly large extent	6	42.9	3.7143
	To a large extent	6	42.9	
	To a very large extent	2	14.3	
	Total	14	100.0	
There exists a strategic plan with clear organizational objectives from which performance indicators and measures are derived.	To a small extent	1	7.1	4.2143
	To a fairly large extent	2	14.3	
	To a large extent	4	28.6	
	To a very large extent	7	50.0	
	Total	14	100.0	
A conceptual framework was put in place to enable the organization focus its measures	To a fairly large extent	2	14.3	4.0714
	To a large extent	9	64.3	
	To a very large extent	3	21.4	
	Total	14	100.0	

The degree of commitment required by everyone in the organization more so those who are party to the contract was clearly stipulated	To a fairly large extent	1	7.1	4.2857
	To a large extent	8	57.1	
	To a very large extent	5	35.7	
	Total	14	100.0	
There was a sense of urgency throughout the organization to move to a new and enhanced performance measurement and management regime	To a small extent	1	7.1	3.8571
	To a fairly large extent	2	14.3	
	To a large extent	9	64.3	
	To a very large extent	2	14.3	
	Total	14	100.0	
The true indebtness of the corporation was established before designing performance contracts for the managers and employees to sign.	To a small extent	3	21.4	3.2857
	To a fairly large extent	4	28.6	
	To a large extent	7	50.0	
	Total	14	100.0	
There is a legal framework that guided the development and implementation of performance contracts	To a small extent	1	7.1	3.4286
	To a fairly large extent	7	50.0	
	To a large extent	5	35.7	
	To a very large extent	1	7.1	
	Total	14	100.0	
Management autonomy to pursue market based interests was guaranteed	To a small extent	2	14.3	3.2857
	To a fairly large extent	7	50.0	
	To a large extent	4	28.6	
	To a very large extent	1	7.1	
	Total	14	100.0	

Internalization of performance contracting throughout the organization was done before its introduction	To a small extent	2	14.3	3.4286
	To a fairly large extent	6	42.9	
	To a large extent	4	28.6	
	To a very large extent	2	14.3	
	Total	14	100.0	
Specificity and not multiplicity and often conflicting goals was established	To no extent at all	1	7.1	2.9286
	To a small extent	3	21.4	
	To a fairly large extent	6	42.9	
	To a large extent	4	28.6	
	Total	14	100.0	
Prior determination of the period of the performance contract	To a small extent	2	14.3	3.1429
	To a fairly large extent	9	64.3	
	To a large extent	2	14.3	
	To a very large extent	1	7.1	
	Total	14	100.0	
Existence of competitive incentive systems was assured before the introduction of performance contracts	To a fairly large extent	1	7.1	4.1429
	To a large extent	10	71.4	
	To a very large extent	3	21.4	
	Total	14	100.0	
There was enhanced organizational capacity centered on people and processes in ensuring that inefficient and ineffective processes do not get in the way of the drive to success	To a fairly large extent	4	28.6	3.8571
	To a large extent	8	57.1	
	To a very large extent	2	14.3	
	Total	14	100.0	
Accountability for performance with focus on results was institutionalized prior to designing of performance contracts	To a fairly large extent	1	7.1	4.2143
	To a large extent	9	64.3	
	To a very large extent	4	28.6	
	Total	14	100.0	

Communication channels were opened to external stakeholders especially customers on the organization's performance expectations	To a fairly large extent	2	14.3	4.2857
	To a large extent	6	42.9	
	To a very large extent	6	42.9	
	Total	14	100.0	
A reformed reporting structure to assist employees in performance improvement was put in place before performance contracts were designed	To a fairly large extent	4	28.6	4.0000
	To a large extent	6	42.9	
	To a very large extent	4	28.6	
	Total	14	100.0	
There was absence of occasional political interference and undue influence that will inhibit the organization's ability to meet performance goals and expectations	To a small extent	3	21.4	3.2857
	To a fairly large extent	6	42.9	
	To a large extent	3	21.4	
	To a very large extent	2	14.3	
	Total	14	100.0	
There was both organizational culture and structure that provide for cross-functional support in meeting the expected targets before performance contracts were designed	To a small extent	1	7.1	3.9286
	To a fairly large extent	3	21.4	
	To a large extent	6	42.9	
	To a very large extent	4	28.6	
	Total	14	100.0	
Weights provided for by the government conformed to those earlier adopted by the organization	To a fairly large extent	4	28.6	3.7857
	To a large extent	9	64.3	
	To a very large extent	1	7.1	
	Total	14	100.0	
There was assurance of adequate resource allocation to all in order to assist in meeting the performance targets	To a small extent	1	7.1	4.2143
	To a fairly large extent	1	7.1	
	To a large extent	6	42.9	
	To a very large extent	6	42.9	
	Total	14	100.0	

Prior initiation of appropriate training and coaching on all aspects of performance contracting was done.	To a small extent	1	7.1	4.1429
	To a fairly large extent	1	7.1	
	To a large extent	7	50.0	
	To a very large extent	5	35.7	
	Total	14	100.0	
There was visible and vocal support to and buy-in of performance contracting by mangers in all levels of management before they were designed and introduced for signing	To a small extent	1	7.1	3.5714
	To a fairly large extent	5	35.7	
	To a large extent	7	50.0	
	To a very large extent	1	7.1	
	Total	14	100.0	
Prior re-evaluation of processes, regulations and policies to empower the employees meet performance targets was done	To a fairly large extent	4	28.6	3.7857
	To a large extent	9	64.3	
	To a very large extent	1	7.1	
	Total	14	100.0	
Mitigating factors that are out of control of those who sign performance contracts were factored in during the design stage	To a small extent	2	14.3	3.2143
	To a fairly large extent	7	50.0	
	To a large extent	5	35.7	
	Total	14	100.0	

As shown in Table 5 above, 33.3% of the conditions have a response mean score of 4 and above; 64.1% of them have a response mean score of between 3 and 3.9; while 2.6% of them have a mean score of below 3. The results therefore indicate that not many conditions were satisfied to a great extent by the state corporations in the design and implementation of performance contracts while many of them were satisfied to a moderate extent.

The study established that a system for accountability of performance results was established prior to designing of performance contacts; a system for collecting performance data was put in place before the design of performance contracts. a system for analyzing, receiving, and reporting performance data was established prior to designing of performance contracts; performance sanctions/incentives system that links rewards/sanctions into measurable performance were established prior to designing performance contracts; there exists a strategic plan with clear organizational objectives from which performance indicators and measures are derived; a conceptual framework was put in place to enable the organization focus its measures; the degree of commitment required by everyone in the organization more so those who are party to the contract was clearly stipulated; existence of competitive incentive systems was assured before the introduction of performance contracts; accountability for performance with focus on results was institutionalized prior to designing of performance contracts; communication channels were opened to external stakeholders especially customers on the organization's performance expectations; a reformed reporting structure to assist employees in performance improvement was put in place before performance contracts were designed; there was assurance of adequate resource allocation to all in order to assist in meeting the performance targets; and prior initiation of appropriate training and coaching on all aspects of performance contracting was done.

It should be, however, noted that even though the above conditions were satisfied to a great extent by the state corporations, the findings indicated that the responses were variously distributed across the various respondents with regard to specific conditions. For instance, from the same table 5 above, even though most conditions had a means score of 4 and above, there were proportions of respondents who indicated that some specific conditions were met to a moderate extent and small extent in spite of the fact their aggregate response mean scores indicated satisfaction to a large extent. For example, 14.3% of the respondents indicated that a system for accountability of performance results was established and a system for collecting performance data was put in place prior to designing of performance contracts were satisfied to a moderate extent yet the conditions had aggregate response mean scores of 4.1 and 4.2 respectively. It would therefore be prudent not to ignore such proportions on making any generalizations with regard to the design and implementation of performance contracts in the state corporations.

With respect to conditions that were satisfied to a moderate extent (those with mean scores of between 3 and 3.9), the study found out that these conditions were those regarding the clear definition of original vision, mission and strategic performance objectives; involvement of all stakeholders in the development of the organization's performance measures and targets; establishment of an integrated performance measurement system prior to designing of performance contracts; putting up first a performance information system that relates to the need for reasonable information balance between the government and the government agency in the process of negotiating performance targets; putting up of a performance evaluation system with performance measurement criteria and evaluation systems prior to designing of performance contracts; inclusion of clearly defined and easily understood performance measurement criteria in the contracts; fairness of the measurement criteria in the performance contracts to the managers and the country; free negotiation and not arbitrary imposition of performance targets and measures; existence of managers' freedom for them to manage the organization within agreed parameters once performance targets have been set; provision for a systematic judgment of performance at the end of the year against the negotiated targets; provision in the performance contracts that evaluation is to be done by expert third party independent evaluators to establish trust judgment of performance at the end of the year against the negotiated targets; performance contracts linking performance to a system of incentives for good performance and sanctions for poor performance; a sense of urgency throughout the organization to move to a new and enhanced performance measurement and management regime; establishment of the true indebtness of the corporation before designing performance contracts for the managers and employees to sign; existence of a legal framework that guides the development and implementation of performance contracts; guaranteed management autonomy to pursue market based interests; and internalization of performance contracting throughout the corporations before its introduction among other conditions. There was only one condition that was satisfied to a small extent and this was with regard to the establishment of specific and not multiple and often conflicting goals which had a response mean score of 2.9.

Similarly, as with the conditions that were satisfied to a large extent, it should, however, be noted that conditions that were satisfied to a moderate extent also indicated varied distribution of respondents on each particular condition. Even though the conditions were moderately rated, there were proportions of respondents who indicated that the conditions were satisfied to a great extent. For example 45.7% and 14.3% of the respondents indicated that the original vision, mission and strategic performance objectives were clearly defined to a large extent and very great extent respectively even the condition's aggregate mean score is 3.6. Others include involvement of all stakeholders in the development of organization's performance measures and targets and prior establishment of an integrated performance measurement system which had 42.9% and 7.1% for great extent and very great extent respectively. All other conditions have varied proportions of respondents who rated them as satisfied to a great extent even though the conditions were moderately rated. As such, no generalization would also water-tightly hold without considering such proportions. The study findings generally show that most conditions (64.1%) were satisfied by State Corporations to a moderate extent during the introduction and implementation of performance contracts given that few conditions (33.3%) were satisfied to a large extent and only one (2.6%) satisfied to a small extent.

CHAPTER FIVE: SUMMARY AND CONCLUSIONS

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 as one element of broader public sector reform aimed at improving efficiency and effectiveness of public enterprises, while reducing total costs. The introduction of performance contracts could be compared to a major paradigm shift in the manner and style of management of public resources. However, good designing and successful eventual implementation of the performance contracts necessitate that a number of necessary conditions are satisfied. These conditions range from clear definition of an organization's vision, mission and strategic performance objectives, establishing and putting in place a number of enabling performance management and measurement systems up to and including factoring in mitigating factors that are out of control of those who sign the performance contracts during the design stage. The design and implementation of performance contracts would only achieve desired outcomes only if the necessary prerequisite conditions are satisfied. This study sought to investigate into the extent to which these conditions were satisfied in the design and implementation of performance contracts in state corporations.

The study established that 46.2% of the 39 conditions that were presented to the respondents were highly rated (with mean scores of 4 and above) as necessary they for the design and implementation of performance contracts. These conditions were therefore perceived to be absolutely necessary. The remaining 53.8% of the conditions were moderately rated with mean scores of between 3 and 3.9. These conditions were perceived to be necessary.

Regarding the extent to which the conditions were satisfied during the design and implementation of performance contracts in the sixteen state corporations that formed the pilot group, it was established that 33.3% of the conditions had a mean score of 4 and above; 64.1% of them had a mean score of between 3 and 3.9; while 2.6% of them had a mean score of below 3. The findings showed that not many conditions were satisfied to a great extent by the state corporations in the design and implementation of performance contracts while many of them were satisfied to a moderate extent.

5.3 Conclusion

The findings of this research have unearthed a number of issues regarding the conditions necessary for the design and implementation of performance contracts in the state corporations. From the findings of the study it could be observed that whereas the percentage of conditions that were perceived as absolutely necessary for the design and implementation of performance contracts was higher (46.2%), the percentage of the conditions that were satisfied to a large extent by the State Corporations in the design and implementation of performance contracts was smaller (33.3%). This implies that in as much as the conditions were as necessary as were perceived by the respondents, the conditions were not equally satisfied by the state corporations in the design and implementation of performance contracts.

A further observation from the research findings is that whereas 53.8% of the conditions were moderately perceived as necessary for the design and implementation of performance contracts, 64.1% of the conditions were satisfied to a moderate extent by the State Corporations in the design and implementation of performance contracts. This discrepancy also implies that respondents' perception of the necessity of the conditions for the design and implementation of performance contracts does not necessarily reflect what happens in practice in the respective Corporations.

It also worthwhile to note that overall, even though 46.2% of the conditions were highly rated by the respondents as absolutely necessary, quite significant proportions of respondents showed some indifference on the necessity of conditions. Similarly, among the 641% of the conditions that were satisfied to a moderate extent, there were proportions of respondents who indicated that the conditions were satisfied to a very large extent in the design and implementation of performance contracts in the State Corporations. Therefore, any conclusions that may be drawn and generalizations that may be made on how the conditions were perceived to be necessary and the extent to which they were satisfied in the State Corporations should never ignore such proportions. Generally, it could be concluded that not all conditions that were perceived to be necessary and not all necessary conditions were satisfied for the design and implementation of performance contracts in State Corporations

5.4 Limitations of the Study

The findings of this study should be evaluated with the following limitations in mind.

The study was constrained first and foremost with time. The time period for the study was too short and this limited the scope and depth of the study. Owing to this factor, the respondents had to find time within their tight schedules to fill the questionnaires. Due to these two aspects, it was not possible to get responses from all the intended corporations to participate in the study.

Also, the study was limited to only the sixteen state corporations that formed the pilot group in the signing of performance and may not apply to the entire public service given that the signing of performance contracts is ongoing in the rest of the civil service.

Further, there are limitations of measurement, which are common to social researches. Respondents' perceptions may change over time and across different personalities. Also respondents may give biased or dishonest answers.

5.5 Recommendations for Further Research

Due to limitations in time, the conditions necessary for the design and implementation of performance contracts as perceived by respondents from other state corporations were not investigated. Therefore, in connection with further research, possible areas can be recommended.

First, since this study focused on the sixteen pilot group state corporations, the signing of performance contracts is ongoing in other corporations which could be studied and findings compared with this study's for validation purposes.

Second, the corporations that were studied operate in different sectors of the economy and are under different parent ministries, a case-by-case study could be done to take care of unique circumstances that are particular to each corporation in order to come up with valid and authentic conclusions instead of relying on generalizations.

Third, since performance contracting is a newly introduced concept in the Kenyan context, other dimensions of the concept other than what this study focused on could be investigated in the state corporations. For instance, one might be interested in investigating the relationship between performance contacting and the level of motivation among those who sign performance contracts.

Lastly, since performance contracting was aimed at improving efficiency and effectiveness in service delivery, it would be recommended that a comparative study be done on the impact of performance contracting on actual performance by taking the pre and post introduction periods to assess and evaluate the impact.

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APPENNDICES

Appendix I: Letter of Introduction

LETTER OF INTRODUCTION

August 15, 2006

Dear Respondent

MBA Research Project

I am conducting a census survey with the sole purpose of gathering information on " ***FACTORS NECESSARY FOR THE DESIGN OF GOOD PERFORMANCE CONTRACTS: A STUDY OF STATE CORPORATIONS IN KENYA".*** The population of interest in this study consists of all the sixteen pilot group (your corporation is one of them) state owned corporations whose management signed performance contracts.

This study is being carried out for a Management Project Paper as a requirement 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. A copy of the Research Project will be available to the organisation upon request.

Your cooperation will be highly appreciated.
Thank you.

Yours faithfully,

Sophie K. Langat (Mrs)
Student

Professor P. K'Obonyo
Supervisor

Appendix II: Research Questionnaire

Part A: General Information

1. Name of Public Corporation____

____

2. Year of establishment ______________________

3. Number of employees (Tick)

Below 500 [ ]
500-1000 [ ]
1001-2000 [ ]
Over 2000 [ ]

4. Incorporation:

a) Name of Act of Parliament under which you operate

____

b) If not Act of Parliament, specify the enabling authority.

____

5. Parent Ministry under which the corporation operates

____

6. How long have you been with the organization (Tick)

1-3 Years [ ]
4-6 Years [ ]
7-10 Years [ ]
Over 10 Yrs [ ]

7. Please indicate your job title ______________________(optinal)

8. Are Positions like yours generally advertised to the general public? (Tick)

Yes [ ] No [ ]

9. Does your job description reflect your current functions and responsibilities? (Tick)

Yes [ ] No [ ]

10. Does your position require the signing of a performance contract? (Tick)

Yes [ ] No [ ]

Part B

Please indicate on a scale of 1 to 5 below, the extent to which you agree or disagree with the following as necessary conditions to be considered in the design of good performance contracts. Use the key below and tick as appropriate.

1. Strongly disagree
2. Disagree
3. Neither agree nor disagree (Indifferent)
4. Agree
5. Strongly agree

		1	2	3	4	5
1	Clear definition of an original vision, mission and strategic performance objectives.					
2	Involving all stakeholders in the development of the organization's performance measures and targets.					
3	Establishment of an integrated performance measurement system.					
4	Establishment of a system of accountability for performance results.					
5	Establishment of a system for collecting performance data.					
6	Establishment of a system for receiving, analyzing, receiving, and reporting performance data.					

7	Putting up a performance information system that relates to the need for reasonable information balance between the government and the government agency in the process of negotiating performance targets.					
8	Putting up a performance evaluation system with performance measurement criteria and evaluation systems					
9	Putting up of performance sanctions/incentives that links rewards/sanctions into measurable performance					
10	Inclusion of a clearly defined and easily understood criteria in the contracts					
11	Having criteria that will be fair to the managers and the country					
12	Having negotiated performance targets and not those imposed arbitrarily					
13	Assuring the existence of managers' freedom for them to manage the organization within agreed parameters once performance targets have been set					
14	Providing for a systematic judgment of performance at the end of the year against the negotiated targets					
15	Providing that evaluation is to be done by expert third party independent evaluators to establish trust					
16	Linking performance to a system of incentives for good performance and sanctions for poor performance					
17	Existence of the strategic plan with clear organizational objectives					
18	Having in place a conceptual framework to enable the organization focus its measures					
20	Stipulation of the degree of commitment required by everyone in the organization more so those who are party to the contract					
21	Existence of a sense of urgency to move to a new and enhanced performance measurement and management regime					

22	Establishment of the true indebtness of the corporation					
23	The existence of a legal framework to govern the development and implementation of performance contracts					
24	Management autonomy to pursue market based interests					
25	Internalization of performance contracting throughout the organization					
26	Specificity and not multiplicity and often conflicting goals					
27	Prior determination of the period of the performance contract					
28	Existence of competitive incentive systems					
29	Enhanced organizational capacity centered on people and processes in ensuring that inefficient and ineffective processes do not get in the way of the drive to success					
30	Institutionalized accountability for performance with focus on results					
31	Having open communication channels to external stakeholders especially customers on the organization's performance expectations					
32	Existence of a reformed reporting structure to assist employees in performance improvement					
33	Absence of occasional political interference and undue influence that will inhibit the organization's ability to meet performance goals and expectations					
34	Existence of organizational culture and structure that provide for cross-functional support in meeting the expected targets					
35	Conformation between the weights provided for by the government and those earlier adopted by the organization					
36	Assurance of adequate resource allocation to all in order to assist in meeting the performance targets					

37	Prior initiation of appropriate training and coaching on all aspects of performance contracting					
38	Existence of visible and vocal support to and buy-in of performance contracting by mangers in all levels of management					
39	Prior re-evaluation of processes, regulations and policies to empower the employees meet performance targets					
40	Factoring in of mitigating factors that are out of control of those who sign performance contracts during the design stage					

Part C.

With specific reference to your organization, please indicate on a scale of 1 to 5, the extent to which each of the above conditions was considered in designing the performance contracts that are now being implemented. Use the key below and tick appropriately.

1. To no extent at all
2. To a small extent
3. To a fairly large extent
4. To a large extent
5. To a very large extent

		1	2	3	4	5
1	The original vision, mission and strategic performance objectives were clearly defined.					
2	All stakeholders were involved in the development of the organization's performance measures and targets.					
3	An integrated performance measurement system was established prior to designing of performance contracts.					

4	A system for accountability of performance results was established prior to designing of performance contacts.					
5	A system for collecting performance data was put in place before the design of performance contracts.					
6	A system for analyzing, receiving, and reporting performance data was established prior to designing of performance contracts.					
7	A performance information system that relates to the need for reasonable information balance between the government and the government agency in the process of negotiating performance targets was put up first.					
8	A performance evaluation system with performance measurement criteria and evaluation systems was put up prior to designing of performance contracts					
9	Performance sanctions/incentives that links rewards/sanctions into measurable performance were established prior to designing performance contracts					
10	Clearly defined and easily understood performance measurement criteria in the contracts were included considered in the design of performance contracts					
11	The measurement criteria in the performance contracts was fair to the managers and the country					
12	Performance targets and measures were freely negotiated and not imposed arbitrarily					
13	The existence of managers' freedom for them to manage the organization within agreed parameters once performance targets have been set was assured prior to designing of performance contracts					
14	The performance contracts provided for a systematic judgment of performance at the end of the year against the negotiated targets					
15	It was provided in the performance contracts that evaluation is to be done by expert third party independent evaluators to establish					

	trust					
16	The performance contracts have linked performance to a system of incentives for good performance and sanctions for poor performance					
17	There exists a strategic plan with clear organizational objectives from which performance indicators and measures are derived.					
18	A conceptual framework was put in place to enable the organization focus its measures					
20	The degree of commitment required by everyone in the organization more so those who are party to the contract was clearly stipulated					
21	There was a sense of urgency throughout the organization to move to a new and enhanced performance measurement and management regime					
22	The true indebtness of the corporation was established before designing performance contracts for the managers and employees to sign.					
23	There is a legal framework that guided the development and implementation of performance contracts					
24	Management autonomy to pursue market based interests was guaranteed					
25	Internalization of performance contracting throughout the organization was done before its introduction					
26	Specificity and not multiplicity and often conflicting goals was established					
27	Prior determination of the period of the performance contract					
28	Existence of competitive incentive systems was assured before the introduction of performance contracts					
29	There was enhanced organizational capacity centered on people and processes in ensuring that inefficient and ineffective processes do not get in the way of the drive to success					

30	Accountability for performance with focus on results was institutionalized prior to designing of performance contracts					
31	Communication channels were opened to external stakeholders especially customers on the organization's performance expectations					
32	A reformed reporting structure to assist employees in performance improvement was put in place before performance contracts were designed					
33	There was absence of occasional political interference and undue influence that will inhibit the organization's ability to meet performance goals and expectations					
34	There was both organizational culture and structure that provide for cross-functional support in meeting the expected targets before performance contracts were designed					
35	Weights provided for by the government conformed to those earlier adopted by the organization					
36	There was assurance of adequate resource allocation to all in order to assist in meeting the performance targets					
37	Prior initiation of appropriate training and coaching on all aspects of performance contracting was done.					
38	There was visible and vocal support to and buy-in of performance contracting by mangers in all levels of management before they were designed and introduced for signing					
39	Prior re-evaluation of processes, regulations and policies to empower the employees meet performance targets was done					
40	Mitigating factors that are out of control of those who sign performance contracts were factored in during the design stage					

Thank you for your co-operation

Appendix III: List of the Sixteen State Corporations that formed the Pilot Group.

1. Kenya Industrial Estates
2. Industrial and Commercial Development Corporation
3. Kenya Wine Agencies Limited
4. Kenya Utalii College
5. Kenya Broadcasting Corporation
6. East African Portland Cement Company
7. Chemelil Sugar Company Limited
8. Kenya Ports Authority
9. Telkom (K) Limited
10. Kenya Pipeline Company Limited
11. National Oil Corporation Limited
12. Kenya Post Office Savings Bank
13. Consolidated Bank of Kenya
14. Kenya Power and Lighting Company Limited
15. Kenya Reinsurance Corporation
16. National housing Corporation