DECLARATION

The Management project is my original work and has not been presented for a degree in any other University.

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The Management project has been submitted for examination approval with my University Supervisor.

Signed ____________________                    Date 14/11/2009
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DEDICATION

‘To my family for the constant encouragement and support throughout my studies’
ACKNOWLEDGEMENT

First and foremost, I thank the Almighty God for giving me the strength and will to study.

I would like to thank my parents Kieleko and Sophia for their constant support, encouragement and prayers. I would never have made it this far if it was not for them.

Special thanks to my Children Braxton and Eric, my Sisters and Brother for tirelessly working with me and constantly reassuring me throughout the period of my studies.

In addition, I wish to acknowledge of my friends Sarah and Carol, for their encouragement and words of great advice throughout my studies.

I also thank my colleagues in the customer service department, NSSF for giving me an opportunity to carry out studies. Special thanks to Gerald, Roselynn Kite, Josphat, Hassan, Kibet, Moiben and Ida for their unlimited support. In addition I am grateful to the entire management of NSSF for giving me an opportunity to carry out research on their organization.

Last but not least, I wish to express my heartfelt gratitude to my supervisor Mr. Kagwe for his guidance and Mr. Maalu for his support towards this achievement.
### ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>NSSF</td>
<td>National Social Security Fund</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labour Organization</td>
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<tr>
<td>RBA</td>
<td>Retirement Benefits Association</td>
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<tr>
<td>ERSWE</td>
<td>Economic Recovery Strategy for Wealth and Employment</td>
</tr>
<tr>
<td>RBM</td>
<td>Results-based Management</td>
</tr>
<tr>
<td>ICT</td>
<td>Information and Communications Technology</td>
</tr>
<tr>
<td>IT</td>
<td>Information Technology</td>
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<tr>
<td>TQM</td>
<td>Total Quality Management</td>
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<tr>
<td>BPR</td>
<td>Business Process Re-engineering</td>
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<tr>
<td>VOIP</td>
<td>Voice over Internet Protocol</td>
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<tr>
<td>PC’S</td>
<td>Performance contracts</td>
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<td>CE</td>
<td>Chief Executive</td>
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<td>CIDA</td>
<td>Canadian International Development Agency</td>
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ABSTRACT

Performance management is a key strategic issue at the National Social Security Fund (NSSF) because of the poor performance experienced since its establishment in 1965. Consequently, NSSF adopted the application of Performance Contracts in the management of its affairs in June 2005. The broad objective of performance contracting was to come up with a system which can enhance service delivery in a transparent and accountable manner. Resultant outcomes expected include enhanced service delivery in the areas of concern. This innovative strategy includes specification of mutual performance obligations and responsibilities of the parties, signing annual performance contracts and regular monitoring and evaluation of performance. In implementing this good practice, resources and inputs have been used optimally. Results achieved over the last five years are impressive, while useful lessons have been learnt. The good practice is replicable factoring individual organization situations.

The need for the study arose in recognition that successful implementation of performance contracting at NSSF was necessary in improving service delivery for both survival and growth of the Fund. NSSF is now a provident fund, which needs to be converted to social insurance scheme. The conversation process, and indeed the policy reform programme and the corporate strategic plan call for a single-minded dedication and collective responsibility on the part of the entire NSSF fraternity in building a performance oriented culture. Success should be measured by results not by outcome. Performance contracting is one of the government strategies to improve performance of these public organizations. Its implementation process is a challenge because of the management style in public institutions. There is multiplicity of principles and state corporations have too many objectives.
A study on the implementation of performance contracting at NSSF was therefore conducted. The case of NSSF under this broad objective of performance contracting first identified general strategy implementation issues; determined the practices and processes involved in strategy implementation and finally looked at the factors that influence implementation of performance contracting at NSSF.
CHAPTER ONE: INTRODUCTION

1.1 Background of the study

1.1.1 Concept of Performance Contracting

Performance contracts 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, and poor management and outright mis-management (Larbi, 2001.)

The economic recovery strategy for wealth and employment creation (2003-2007), outlines the government commitment to improve performance, corporate governance and management in the public service through the introduction of performance contracts. Consequently, the government of Kenya introduced performance contracts in the public service through legal notice No.93, the state corporations (performance contracting) Regulations, in August 2004.

Different approaches to public sector management have been employed to address these challenges. These approaches include first new institutional structures and arrangement for managing and delivering programs and services (privatization, commercialization, contracting, outsourcing and decentralization of local government.) Secondly 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 shop) (Larbi, 2001). Where these new methods are seen as addressing weaknesses in the more tradition centralized and compliance based public management systems, they bring their own set of problems. Most notably, management systems that desegregated decentralized and devolved need to new frame work to guide behavior. These changes do not rely on uniform rules for the relationship nor for assuring accountability in the use of public resources and delivery of public service. In view of the shortcomings evident in the systems, countries have adopted the system of performance contracting as a management tool.

A performance contract is an agreement between two parties that clearly specify their mutual obligations, intensions and responsibilities. It is a freely negotiated contract between the government, acting as the owner of a government agency, and the agency itself up to and including other management levels of the organization. Most commonly, performance contracts include bonuses for a job well done, and less often sale decreases for poor performance. The increased interest in the performance contracts coincide with demands for great accountability (Blasi, 2002.)

There is a perceived link between performance contracting and strategic planning (Choke, 2006.) Strategic planning is the process of specifying the organization's objectives, developing policies and plans to achieve these objectives, and allocating resources to implement the policies and plans to achieve the organization's objectives. According to Mintzberg et al (1998), Strategy can be defined using five main definitions.
They defined strategy as a plan, ploy, pattern, position or perspective. Chandler (1962) further states that strategy is the determination of the long term goals and objectives of an enterprise, and the adaptation of courses of action and the allocation of resources necessary for carrying out the goal. Strategy is therefore linked to the long term position of an organization. Without strategy, decisions made today could have a negative impact on future results (Bruce and Langdon 2000).

Strategy is the multidimensional concept embracing all critical activities of the firm, providing it with a sense of unity, direction and purpose as well as facilitating the necessary changes induced by the environment, (Hax and Majluf 1996). They argued that strategy is the means of establishing the organizational purpose in terms of its long term objectives, action programs and resource allocation; a response to external opportunities and threats, and internal weaknesses and strengths and a way to define managerial tasks with corporate businesses and functional perspectives. Campbell et al (2002) defined strategy simply as a vehicle through which a business can review past performance and, more importantly, determine future actions geared towards achieving and sustaining superior performance. They stated that it is undertaken in phases. These phases are Strategy development, Strategy Evaluation, Strategic Change and Implementation, and Strategy learning. Strategic management is therefore a vital tool in all organizations today as it helps business managers in making strategic decisions that affect the long term objectives of the organizations.

The essence of Strategy is to relate the organization to changes in the environment, (Ansoff 1987). Strategy therefore is a tool that helps the organization to align its activities to match turbulence in the environment.
Organizations therefore need to develop response mechanisms to deal with the changes in the environment. These changes may emerge from the economic, political, social or technological circles of the environment. Firms must be flexible and constantly review these strategies to much turbulence levels in the market. However the success of an organization is not how best it has well placed strategies but how best it executes them. Strategies that are not implemented constitute little more than academic exercises. The ability to implement strategies is one of the most valuable of all managerial skills. Manager’s intent on implementing strategy must: master systems thinking to be able to coordinate a broad range of interconnected efforts aimed at transforming intentions into action, and take care of the factors impeding strategy implementation.

Efforts for implementing strategy are challenging for many organizations, yet it remains under-researched. In his new book Making Strategy Work Wharton Professor Lawrence Hrebiniak says that many of today’s top executives are far better at developing strategy than executing it and overcoming the political and organizational obstacles that stand in their way (Lawrence, 2005). Learning from emotional responses early in the implementation process, which reveals the presence of unexpected emotional triggers, can allow timely adjustments. In other words, emotions can serve as advance feedback signals in strategy implementation.

Implementation of performance contracts is one of the government’s public policy reforms to ensure success of state corporations in the market which keeps changing. It is an innovate strategy by the government to implement change in state corporations.
It can therefore be seen as an adaptive measure to cope with the changing environment. British Prime Minister Tony Blair wrote that: "Success will go to those companies and countries which are swift to adapt, slow to complain, open and willing to change."

The task of modern governments is to ensure that our countries can rise to this challenge." In developing countries, economic liberalization refers more to liberalization or further "opening up" of their respective economies to foreign capital and investments. Three of the fastest growing developing economies today; China, Brazil and India, have achieved rapid economic growth in the past several years or decades after they have "liberalized" their economies to foreign capital. Many countries nowadays, particularly those in the third world, arguably have no choice but to also "liberalize" their economies in order to remain competitive in attracting and retaining both their domestic and foreign investments.

In the context if this study which is performance contracting it will be dealing with innovative strategies. These include specification of mutual performance obligations and responsibilities of the parties, signing annual performance contracts and regular monitoring and evaluation of performance. In implementing this good practice, resources and inputs have to be used optimally. Results achieved over the last five years are impressive, while useful lessons have been learnt.

1.1.2 Retirement Benefits Industry in Kenya.

RBA was established by RBA ACT No.3 of 1997 whose primary objectives are to protect the interest of members and sponsors of retirement benefit schemes from abuse that have occurred in the past, to promote the development of the sector and to alleviate poverty through enhanced savings for retirement.
RBA is the regulatory body whose purpose is to provide harmonized legal framework to govern the sector. The authority is answerable to the ministry of finance and is completely independent and acts as impartial adjuvatory institution in dealing with complaints and disputes relating to running of the retirement schemes. The Retirement Benefits Authority (RBA) is the regulator and supervisor of pension schemes in Kenya. Currently, 1350 pension schemes are registered with RBA and cover 15% of the Kenyan labour force. The total labour force is estimated at 8 million out of which 2.5 million are employed in the formal sector. NSSF has the largest share of the working labour force as illustrated in figure 2.

Fig 1: coverage within RBA 15% of workforce

1- National Social security Fund
2- Civil service Pension Scheme
3- Occupational Retirements Benefit schemes
4- Individual Retirements Benefits Scheme

In Kenya the introduction of retirement based support system as the basic source of old age relief did not emerge with the advent of colonialism until the 19th century that guaranteed old age social support. The cultural effect of the colonial rule was to reduce significantly the social cohesiveness and even made it more urgent and desirable to have pension schemes especially for those joining the emerging formal employment and monetary sector. It’s not until independence that the pension plans of reasonable significance emerged. During the colonial rule the pensions provided under the pensions Act CAP 189 of 1946 was largely racist and operated from England.

The emergence of independence saw the pace of industrial growth increase leading to increased importance of pension schemes in both state and private organization. The post independence government started legislating for pensions and hence pension schemes slowly became part of employment contract terms. Majority of pension schemes effected were provident funds which provide lump-sum benefit rather than pension.

The government sponsored pension plan schemes include those provided by the parliament to a member by having served a minimum of two terms in the civil servant pension scheme. Currently with an increasing number of people joining formal employment sector each year and introduction of RBA, both public and private sector are now involved in the setting up proper pension plans. In Kenya today retirement benefits arrangements are increasing occupying an important place in negotiation for an employment contract and are now competing for the most qualified employees in the job market. Retirement benefits authority like any other industry in Kenya has not been spared by the change.
Retirement benefit schemes seek to reposition themselves in order to create new competitive environment. For example for many years retirement benefits sector in Kenya operated in an environment that lacked clear, concise and focused legislation governing the management and operation of retirement benefits schemes (RBA, 2003). Retirement benefits sector was thus open to abuse and newspaper were repute with stories of denied or delayed benefits, is misappropriation of scheme funds into sponsoring businesses, funded schemes that cannot meet their obligations, questionable investments, lending of scheme funds to trustees or senior managers at uneconomical rates and many other problems that are to detriment members.

1.1.3 The National Social Security Fund in Kenya

NSSF was established by an act of parliament cap 258 of laws of Kenya in 1965. It commenced operation in 1996 as a section in the Ministry of Labour and was later upgraded to a department. It currently operates as a provident fund, i.e. it provides lump sum payment benefits. The stated mission for NSSF is “to provide basic social security and welfare support to workers” Its vision is: “to be a world class centre of excellence in provision of social security”. Poor performance by National Social Security Fund (NSSF) has been a matter of public concern since 1965. A historical analysis of NSSF service delivery in Kenya revealed a steady decline despite a raft of measures taken to alleviate the situation. The decline was evident in member contributions, registrations, benefit processing, compliance, cost management, suspense containment and resources utilization. Though commendable initiatives have been implemented starting with decentralization of benefits processing and payment, the service reform lacked important ingredients of performance improvement systems.
The initiative lacked a focus on outcome-oriented measures. Measures that asked what results were achieved instead of what work was done for those results. The initiative had too many measures and did not create a strong link between the organization mission and the individual work of employees and managers.

Rarely could one see the link between the goals of the chief executive and employee goals. This led to the reform implementation meeting limited success. It is for this reason that the government of Kenya introduced performance contracts in state corporations. NSSF in the recent past has embraced ICT so as to keep abreast with changes in the technological environment. Changes in methods of communication and increased use of technology have forced the fund to come up with more reliable and efficient ways of serving customers. Online registration of employees has made it easier to reach the public. In addition, members are able to get their statements from any branch in the country due to decentralization of services. It is therefore important that NSSF should monitor changes in the technologies that affect their operations and markets.

Arising from the above an environmental spanning factors impeding effective and efficient service delivery unveils the following changes in environmental conditions; Change in laws regarding the pension schemes; Knowledgeable citizenry on benefits of pension schemes; Increase expectations by customers on service delivery; Introduction of reforms in the public service; and New emerging investment opportunities in Kenya. It is instructive to note that arising from the above and in light of the changes in laws regarding pension schemes the NSSF has been forced to come up with creative and innovative ways of meeting the customers’ expectations with a view to address increased competition in the previously monopolistic market.
In addition, the knowledgeable citizenry who now have increased expectation on service delivery are becoming more skewed towards attractive service expectations offered by new emerging investment institutions. This shift from the pension services market segment has underscored the implementation of the recently introduced public service reforms underpinning performance contracting, ISO, Total Quality Management and public service integrity.

1.2 Statement of the Problem

Performance contracting is a new concept that has been introduced by the government to monitor performance of the state corporations. Being a new concept its implementation can be a challenge and therefore requires well organized processes to ensure success. Secondly, performance contracting is good concept since it can bring autonomy in the performance of duties in the state corporations. Blasi (2002) points out that apart from the reliance in formal rules performance contracting tend to go along increasing autonomy in a number of areas for example pricing, procurement and personnel. This trend he notes is accompanied by new accountability relations between ministers who are responsible for policy matters and provide the finance and public sector managers who are responsible for operational matters. However this benefit of performance contracting to state corporations may be lost due to poor implementation.

The political culture and history of Public Sector institutional development in general and National Social Security Fund (NSSF) in particular impacted on efforts to introduce greater performance orientation and good governance. A historical analysis on patterns and trends of Public Service delivery in Kenya reveals a steady decline despite a raft of measures taken to improve service delivery. NSSF being a public entity was no exception. In NSSF, the decline was manifested in poor cost management and resources utilization, low contributions, registrations, benefit payments and compliance levels.
Growth in suspense account and non-compliance with strategic plan and the law were prevalent. Mediocrity had replaced meritocracy while hardly any consideration was made for creativity or innovation. Corruption, fraud and theft were common.

Consequently, NSSF adopted as a policy, the application of performance contracts in the management of its affairs. A performance contract is a measurement tool for measuring performance against negotiated targets. It is a freely negotiated performance agreement between the principal and the agency. The performance contract specifies the mutual performance obligations and responsibilities of the two parties. Performance contracting has therefore been introduced to monitor how effectively the fund managers meet their stated objectives. This Study therefore analyzed the key processes by NSSF in the implementation of performance contracting. It also looked at the factors affecting the implementation of performance contracting at NSSF.

Studies on performance contracting have been done extensively. Churqo (2006) looked at perceived link between strategic planning and performance contracting in Kenyan state corporations. Koske (2003) looked at strategy implementation and its challenges in public corporations. Nyororo (2006) did strategic change management and performance of NSSF. Gichumbi (2007) did strategies by NSSF to changing environmental conditions in Kenya. However; an in-depth analysis of the implementation of performance contracting in state corporations has not been done. This study therefore sought to answer the question,’ what processes has NSSF as an organization undertaken to enable it implement performance contracts successfully?’
1.3 Research Objectives

i) To determine the performance contracting implementation processes at NSSF

ii) To identify the factors that affect implementation of performance contracting at NSSF

1.4 Importance of the Study

The study will benefit retirement benefit schemes in meeting the expectations as dictated by the changing environment and increased competition. The findings are expected to these schemes identify strategic gaps in their strategies and know the right strategic response to adopt in order to survive in the liberalized economy. The study will also ensure successful implementation of performance contracts in the state corporations and this will improve the tarnished image of major state corporations the customers will be assured of superior performance and excellent customer service and they have some trust with these corporations. Also the NSSF management will be able to implement their strategic plan more effectively and efficiently leading to improvement of the overall organizational performance. Last but not the least the study will be used by academicians, as a basis for further study
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

2.1.1 Strategy Implementation

Strategic management is the art and science of formulating, implementing and evaluating cross-functional decisions that will enable an organization to achieve its objectives, Ansoff and McDonnell (1990). Strategic management, therefore, combines the activities of the various functional areas of a business to achieve organizational objectives. It is an ongoing process that assesses the business and the industries in which the company is involved; assesses its competitors and sets goals and strategies to meet all existing and potential competitors; and then reassess each strategy annually or quarterly [i.e. regularly] to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy to meet changed circumstances, new technology, new competitors, a new economic environment, or a new social, financial, or political environment. (Lamb, 1984)

To execute strategy is to execute change at all levels of an organization. Seems self-evident but overlooking this truth is one of the greatest causes of failed transformation. Different actors of the organization are likely to have different views on organization’s issues. Therefore, it is interesting to find out the differences and similarities in the views of issues that are supposed to concern all the actors. The most crucial thing is how middle management sees strategy implementation since they are the steering wheel in many organizations.
When companies retain consultants to help implement strategic initiatives, they often fall into the trap of giving up too much control and overpaying for solutions that do not work. Here’s how to get your money’s worth out of expensive hired muscle. Many businesses fail to achieve strategic objectives because they do not successfully connect operations with goals. Effective communications among all stakeholders is critical in bypassing this fatal chasm. (Lawrence, 2005.)

The performance gap between strategy creation and benefit realization is frequently a company’s inability to execute the strategies they define. So what makes this road to strategic execution so precarious? Potential hazards may be grouped into four basic categories: Clarification, Communication, and alignment. Successful companies align their key management processes for effective strategy execution. Many of these companies have now sustained their focus on strategy execution by establishing a new corporate-level unit, an Office of Strategy Management (OSM). (Robert and David, 2005)

2.1.2 Performance Contracting

In the context of the study performance contracting is a process of drafting a written or negotiated agreement between the government or its representative agency and the management of public enterprise and other public organizations directly delivering public services or between government and private and private managers of the state asset where quantifiable targets are explicitly specified for a given period and performance is measured against targets at the end of the period (World Bank 1993)
Aucoin and Heinzman (2000) noted that, one of the key plans of the new public management is its emphasis on performance or accountability for results. This has taken various forms, including setting explicit standards and measure of performance, more transparent method 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 enhancing performance and accountability in the public sector. They are part of the government to respond to demands for results and for demonstrated performance in respect to results by managing and responding on outputs and outcomes.

These concerns are being approached through the applications of three different though not necessarily mutually exclusive payment methods. The first is project 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 use of predetermined formula, to the profit of the company 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 individual performance bonuses, which are paid on top of basic enabling individuals to establish a direct correlation between their personal efforts and bonus payment they receive. The sums received are sometimes as twice as basic salary. The last is the venture return method which represents perhaps the most radical break with the past.

The picture created by new reward system is not of course totally rosy. Where there are winners there may be also losers; not everyone will have the opportunity or drive to be an entrepreneur, not all 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 dawn their career path, could be particularly adversely affected by such changes. In addition, such payment systems may be divisive and create conflict.

Scott stresses teamwork, yet situation where some members of the team are receiving more bonuses is bound to bring tension which undermines cooperation and collaboration. It may be that profit sharing schemes which encompass everyone in the organization overcome this threat to team working, but everyone receives the same share of profit 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 most experienced people in the organization. A performance contract addresses economic, social or other tasks than 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, review and evaluation of periodic and terminal performance. (England 2002). According to directorate of personnel management training manual (2005) performance contracts should focus on two levels: For state corporations, the first level is between the government and the board of Directors. Generally, board 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 performance contract with the chief executive. For the Civil service, the first level is between the president and ministers, then the head of public service and permanent secretary with the respective ministers countersigning.

The fundamental principal of performance contracting is the devolved management style where emphasis is the management by outcome rather than management by process. Government views performance contracting as a useful vehicle of articulating clearer definition of objectives and supporting new management monitoring and control methods. 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).

2.1.3 The Need for Performance Contracting

The improvement in the wealth of nations of of nations is premised on the realization that comparative advantage depends on the 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 where the private organization has entrepreneurial roots, the public corporations are created by some higher controlling authority. This authority is usually composed of multiple and competing interest. 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 all-encompassing and measurable as increased profits, sales or market share. This view is also supported by Rainey et al (1976) where they mentioned the complexity of objectives of public organizations in terms of its greater multiplicity and diversity. Regarding decision making in public sector, (Rider) 1987 emphasizes that decision-making is a typically not purely rational but rather incremental and adaptive. It is 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 private corporations are created to ensure effective and efficient delivery of essential services majority has been mis-managed and some have resulted to closure like Kenya meat commission, nyayo bus corporation among others in an article by Gakuru in the standard news paper of July, 8, 2003, he state' The solution to the problem affecting our nation and proper running of the government is by improving efficiency as defined by the private sector." According to him,' the government has reached the private sector to acquire "'best and brightest’’ that the sector has to over to fix to numerous government failures. This has not started with the narc government and it is not attached to Kenya alone. Other developing nations are doing the same especially because of pressure from World Bank, IMF, and European Union, other bilateral and multilateral donors.
The widely acceptable rationale for performance contracting is that agencies have multiple principles and their fuzzy objectives lead to poor financial performance in most cases. One view is that because public agencies are required to carry out several functions, they are unable to do any of them very well. The other is that while the government agency may have done very well in achieving many of its objectives, its performance may be judged with reference to one objective 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 want achieved. It addresses multiplicity of principles by acquiring one agency to sign on behalf of all of them (Kaufmann, 2002).

The multiple agencies that the government must deal with in fulfilling their mandate 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 principles results in a denial syndrome in the event that things are not working as expected and non wants to take responsibility for the failure.

The objective of performance contracts policy is to simultaneously increase autonomy along with transparency and accountability. Unlike convectional privatization where assets are transferred from public ownership to private ownership, The performance contracts seeks to privatize the public sector style of management through what may be regarded as a movement away from "control procedures" to control by results" Government surveillance mechanisms accordingly focus on outcome of management processes and not the processes themselves EAC,(2004). The positive impact of performance contracts is now widely recognized for it is based on the following premise :-what gets measured gets done ,if you don’t measure Results, You can’t Tell

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success from failure; if you can't see success, you can't reward it; If you can't reward it, if you can't reward success, you are probably rewarding failure, you can't correct it; if you can't demonstrate results, you can't win public support (Thompson and Strickland, 2003)

Performance Contracting addresses the three key governance questions of What, How and how well. Furthermore, the eight characteristics of good governance namely participation, rule of law, transparency, consensus building, equity, inclusiveness, effectiveness, efficiency, responsiveness and accountability are embraced. The main objectives of performance contracting at NSSF include, increasing membership and contribution collections, settle all legitimate benefit claims when due, increase returns on members' funds, improve customer service and corporate image; enhance effective management systems and standards; improve staff effectiveness and professionalism and to eradicate corruption.

The expected outcomes were substantial increase in membership and contribution collections, 100 per cent settlement of legitimate benefit claims; higher returns on members' funds; reduced suspense account; high level of customer satisfaction; re-branded NSSF and institutionalized corporate social responsibility, acquisition of ISO Certification; improved staff effectiveness and standards; improved efficiency in service delivery to members; improvement in performance and efficiency in resource utilization; ability to measure and evaluate performance; ability to link reward to measurable performance, entrenched culture of accountability for results at all levels and to minimize corruption.
The parties to a performance contract consist of the Principal, that is the superior entity in the Government hierarchy and the Agent, which is the subordinate entity in the same hierarchy.

For example in the case of a state corporation, the first level of the performance contract is between the Government (principal) and the corporation’s Board of Directors (Agent). The Principal is responsible for public policy and also monitors and evaluates performance. The Agent is responsible for implementing public policies and achieving the target agreed upon. It is important to note that the relationship between the agent and the principle is not all that smooth.

In political science and economics, the principal-agent problem or agency dilemma treats the difficulties that arise under conditions of incomplete and asymmetric information when a principal hires an agent, such as the problem that the two may not have the same interests, while the principal is, presumably, hiring the agent to pursue the interests of the former. Various mechanisms may be used to try to align the interests of the agent in solidarity with those of the principal, such as piece rates/commissions, profit sharing, efficiency wages, performance measurement (including financial statements), the agent posting a bond, or fear of firing.

The principal-agent problem is found in most employer/employee relationships, for example, when stockholders hire top executives of corporations. Numerous studies in political science have noted the problems inherent in the delegation of legislative authority to bureaucratic agencies. As another example, the implementation of legislation (such as laws and executive directives) is open to bureaucratic interpretation, which creates opportunities and incentives for the bureaucrat-as-agent to deviate from the intentions or preferences of the legislators. Variance in the intensity of legislative oversight also serves to increase principal-agent problems in implementing legislative preferences.
2.1.4 The Process of Performance Contracting

Performance contracts should be linked to the organization work plan, the cycle of implementing performance contracts includes the following activities:- Setting Key Results Areas (KRA's) based on agreed priorities in the organization, Signing of contracts between the Chief Executive (CE) and the Principal, desecration of performance targets and signing of subcontracts between the CE and heads of department, quarterly and annual reporting of performance and quarterly and annual reviews of the contracts.

After specifying the activities, the next step is to clarify the goals and objectives of public agencies, including their obligations and responsibilities, and measure the extend of achievement of each objective. The simple act of defining performance measures clears the fuzziness and clarifies the expectation of both the public and other stakeholders. The cornerstone for designing a performance contract is the strategic plan defines the agencies plan current situation, where the agency intends to go, how it will get there, when it will get there, what needs to be done and by who, and how this will be reviewed. The backbone of performance contracts is performance indicators, which are delivered from the mission objectives of the agency, as contained in the strategic plan. A standard performance contract contains the following elements: - Vision, mission, objectives, performance criteria, performance indicators and targets, commitments by Government/Principal commitments by agency, frequent of monitoring and service charter.

Apart from performance contracts, there are performance agreements which are similar to performance contracts. They involve a systematic process of planning work and setting expectations, continually monitoring the performance, developing the capacity to perform periodically rating performance agreement is signed between the manager and a subordinate. It
will normally contain four (4) Key business objectives and their targets for the year ahead, how the job is to be performed, identifying key competencies, standard and behavior expected for the individuals’ responsibilities and the rewards to be given for achieving the target results and the penalties for not meeting the targets.

2.1.5 Strategy and Performance Contracting

Strategy and strategy implementation is linked to performance contracting in that, the implementation of performance contracting involves use of the Strategic Plans, annual Work Plans, Annual Budget, Human Resource Plans, and Performance Appraisal in RBM. The starting point of RBM is the strategic plan, which must be developed in line with public policy. Annual work Plans are derived from the strategic plan. These form the basis of the selected performance criteria, indicators and targets for performance contracts. The budget and the human resource plan. Indeed the individual work plans should in turn form the basis of performance appraisal.

The figure below illustrates the linkages

Fig 2: Linkages between performance contracts and different plans

Source: NSSF Hazina magazine vol.4 pp.30, (May 2007)
2.2 Performance Contracting Implementation of Processes.

The first one is result based management. H.E the president’s vision was to turn Kenya into a working nation. In this regard the government of Kenya has developed the national performance management frame work (NPMF) for institutionalizing result based management (RBM) in the public service.

RBM aims at improving public service performance and service delivery in order to successfully implement the targets of the economic recovery strategy (ERS) for wealth and employment creation (2003-2007) RBM for public service in Kenya will require setting of performance of an organization or individual over a period of time against specific outcomes, objectives and targets, change in management styles, a well motivated and flexible work force and reassertion of public service ethics. It also requires that every organization has well defined objectives and a clear strategy for achieving results. In RBM results refers to that change that can be observed, described and measured. It is a change where the cause can be identified (cause effect relationship). A result is a describable or measurable change in state that is derived from a cause effect relationship (CIDA RBM Policy, 1996).

RBM is a participatory and team based approach designed to achieve defined results by improving programme and management effectiveness, accountability and Transparency (RBM Guide, Kenya 2005). Its a means to improve management effectiveness and accountability by involving key stake holders in refining realistic expected results, assessing rise monitoring progress towards achievement of expected Results, integrating lessons learnt into management decisions and Reporting on performance (CIDA, 1996).
Results-based management is a life-cycle approach to management that integrates strategy, people, resources, processes and measurements to improve decision-making, transparency, and accountability. The approach focuses on achieving outcomes, implementing performance measurement, learning and changing, and reporting performance.

Fig 3: RBM Process

Planning involves the articulation of strategic choices in light of past performance and includes information on how an organization intends to deliver on its priorities and achieve associated results. In the implementation; ongoing performance measurement and periodic evaluation are key tools through which progress is determined. Performance measurement and evaluation present valuable opportunities to learn and adjust so that the desired results may be achieved.

Reporting is the final stage of the life-cycle approach involves reporting on results through the provision of integrated financial and non-financial information. Results-based information is used for both internal management purposes and for external accountability to Parliament and Canadians. The reporting phase also provides managers and stakeholders the opportunity to reflect on what has worked and what has not: a process of learning and adjusting that feeds into the next planning cycle.
RBM is an important practice because it ensures clearly defined expected results (outputs, outcomes, impact), Description of the logical relationship between inputs, activities and expected results, Government policies and programmes that focus more on results NOT inputs and activities, assurance that public transactions are based on fairness, equity, cost effective strategies and sound resource stewardship impact that correspond to national goals and organizational strategic plans.

Citizen centric, public service that serves the boarder public interest, programmes designed, delivered, implemented and evaluated from the perspective of the citizen, project management strategies that focus on transforming resources through activities that culminate in national developmental results, national development results that reflect changes in the state of citizen’s human development and zero tolerance to corruption in public service delivery. Secondly, it allows the Review of laws and policy frameworks that do not support RBM, feedback from RBM that assists in formulation of new laws and policies and enhancement of existing ones, Reengineered procedures and processes, effective succession planning and management, accountability and transparency, collective responsibility and decisions made in government, faster public service delivery due to less bureaucracy, re-engineered procedures and processes and inculcation of a learning culture in individuals and/ or organizations.

This involve effective succession planning and management, adoption of Gemba-Kaizen approach to improve work performance, participatory management approaches, clarity of roles and responsibilities of stake holders in the result chain and Minimal duplication of efforts to ensure efficient and effective resource utilization. Finally, continuous learning and improvement allows Creativity and innovative approaches to public service delivery, expansion in RBM.
information bases and access to data on national projects, Stakeholder participating, increased commitment to achieving project results, stakeholder participation in identifying project/programme assumptions, risks and indicators of success, commitment to achieving national development goals and participation by all RBM decision making and definition of expected results.

The other practice is Rapid Results Initiative (RRI), also called Rapid Results Approach (RRA). It is an action plan, or methodology. It is a results-focused learning process and a way of harnessing team strength and client participation to speed up large-scale delivery of services within a period, or wave, of 100 days through intermediate milestones and action steps. Service delivery is undertaken through an action plan and an exclusive team, or teams supported by a governance structure which is set apart from the usual bureaucracy. RRI has great potential for motivating staff through team work and recognition; and equally great potential benefit to the client by involvement in decisions which support service delivery; and shorter delivery times due to cutting on bureaucracy. Continuity and sustainability is ensured by starting successive initiatives after every 100 days.

RRI recognizes the motivational power of celebration of achievements. Celebration is done as a public event, and comes after the 100 days. Participation is by all members of the teams and governance structure, customers, members of the public, and other collaborators. RRI makes use of another approach called Rapid result approach. This is an approach which tackles large-scale change efforts through a series of small-scale, results-producing and momentum-building initiatives. It is consistent with the International Community focus on results and capacity enhancement and client ownership since it overcomes inertia and resistance to change.
RRA builds support for change by helping leaders adapt and refine implementation strategies. This accelerates learning and discovery and reduces hidden risks inherent in long-term strategies.

**RRA Brings out Group Motivation.** The civil service has for long been accused of being immune to change and poor at service delivery. RRI can reverse this trend and perception by expediting service delivery, and bringing to public attention many positive changes that go unrecognized.

Apart from being an action plan rather than a project, the Rapid Results Initiative (RRI) has another difference: It has an in-built **Information, Education, and Communication (IEC)** component to enhance transparency and ensure that the public and clients are updated on progress in service delivery at all times. The new trend is further reinforced by direct involvement of the client in decisions that support service delivery.

Total Quality Management is another process which is described as a continuous process of improvement for individuals, groups of people and the whole organization (Kanji and Asher, 1996). It is an approach that was inspired by the Japanese that is used to improve organizational performance and effectiveness. Mullins (2007) defined TQM as a way of life for an organization as a whole, committed to total customer satisfaction through a continuous process of improvement, and the contribution and involvement of people. The concept of TQM is drawn from Quality Management which is a philosophy of management that is driven by continual improvement and responding to customer needs.

The Chartered institute of Management define TQM as a way of managing which gives everyone in the organization responsibility for delivering quality to the final customer; quality being defined as ‘fitness for purpose’ or as ‘delighting the customer’.
TQM views each task in the organization as fundamentally a process which is in a customer/supplier relationship with the next process. The aim at each stage is to define and meet the customer’s requirements with the aim of maximizing the satisfaction of the final consumer at the lowest possible cost. TQM is concerned with providing the customer with satisfactory service on a continuous basis. For an organization to be successful, it should as a matter of policy is constantly seeking opportunities to improve the quality of its products, services and processes. TQM has been used as a tool for ensuring that all services provided meet the customers’ expectations. NSSF has trained its staff on processes of ensuring that their activities are continuously improved to match the changing customer needs.

2.3 Factors Affecting Implementation of Performance Contracting

2.3.1 Organizational Culture

The concept of culture is particularly important when attempting to manage organization-wide change. Practitioners are coming to realize that, despite the best-laid plans, organizational change must include not only changing structures and processes, but also changing the corporate culture as well. Cultures within any organization are referred to as organizational culture. This depicts how things are done around any given organization. Mullins (2007) sees organization culture as a collection of traditional values, policies, beliefs and attitudes that constitute a pervasive context for everything we do and think in an organization.

Organizational culture reflects the underlying assumptions about the way work is performed, what is acceptable and not acceptable, and what behaviour and actions are encouraged and discouraged within the organization. The culture of an organization is often likened to the personality of an individual. It is a system of management authority.
It helps employees to identify themselves with their organization and accept their rules, internalizes the organization values and motivates them to achieve the organizations objectives. It is important for any organization to develop its culture as it influences the way people behave. Positive organization culture yield proper communication to each other and also to outsiders.

It also results in other factors relevant for successful strategy implementation such as teamwork, outcome orientation, innovation and risk taking, attention to detail and also people orientation. Organizations therefore need to develop strong cultures in which key values are intensely held and widely shared. Robbins and Coulter (2005) explain that employees in organizations with strong cultures are more committed than those in organizations with weak cultures hence they generally have higher performance.

2.3.2 Organizational structure

Organizational Structure can be defined as the way or method through use of a hierarchy that a group, business, organization, people or objects collaborate to achieve success on one common goal. Organizational structure refers to the way that an organization arranges people and jobs so that its work can be performed and its goals can be met. When a work group is very small and face-to-face communication is frequent, formal structure may be unnecessary, but in a larger organization decisions have to be made about the delegation of various tasks. Thus, procedures are established that assign responsibilities for various functions. It is these decisions that determine the organizational structure.
In an organization of any size or complexity, employees' responsibilities typically are defined by what they do, who they report to, and for managers, who reports to them. Over time these definitions are assigned to positions in the organization rather than to specific individuals. We have traditional structures and matrix structures, tall and flat structures. NSSF has a tall structure with many departmentalization leading to barriers on flow of information.

### 2.3.3 Teamwork and Employee Involvement

Robins and Coulter (2005) define a team as a group whose members work intensely on a specific, common goal using their positive synergy, individual and mutual accountability and complementary skills. They further state that in a team, the combined individual efforts of team members result in a level of performance that is greater than the sum of those individual inputs. Teamwork is a vital tool for smooth strategy implementation in any organization. When members' efforts are recognized, there is higher commitment which brings about a sense of belonging. This in return yields higher performance in the organization. According to Kanji and Asher (1996), teamwork is important for the sole purpose of organizing activities which require a number of people to collaborate and work together for a common goal. It is useful when people with different but complementary responsibilities, knowledge and abilities can contribute to the development of a strategy or solution to a problem important to the organization.

Teamwork can provide a focus for a group of people in a task force looking at cross-functional problems. It requires the cooperative effort and contribution of a number of people with a common goal or objective. In addition, team work encourages innovations and creativity hence growth and quality strategy within the organization. Teamwork has become a motivating factor for employees at NSSF.
Teamwork creates an environment whereby the employees feel as part of the organization. It has also created a sense of belonging to employees at the fund. NSSF has provided a team spirit by ensuring that employees are able to interact regardless of the positions they hold. It ensures staff involvement at all levels. This can deal very well with the problem of resistance. With increased teamwork, NSSF will create a more employee friendly environment; hence provide better services to the public.

2.3.4 Transformational Leadership

Transformational leadership is a leadership style that is defined as leadership that creates valuable and positive change in the followers. A transformational leader focuses on "transforming" others to help each other, to look out for each other, to be encouraging and harmonious, and to look out for the organization as a whole. In this leadership, the leader enhances the motivation, morale and performance of his follower group. James, (1978) first introduced the concepts of transformational leadership in his descriptive research on political leaders, but this term is now used in organizational psychology as well.

According to Burns, transformational leadership is a process in which "leaders and followers help each other to advance to a higher level of morale and motivation". Burns related to the difficulty in differentiation between management and leadership and claimed that the differences are in characteristics and behaviors. He established two concepts: "transformational leadership" and "transactional leadership". One of the methods the Transformational Leader uses to sustain motivation is in the use of ceremonies, rituals and other cultural symbolism. Small changes get big hurrahs, pumping up their significance as indicators of real progress.
Transformational Leaders are often charismatic, but are not as narcissistic as pure Charismatic Leaders, who succeed through a belief in themselves rather than a belief in others. They often have large amounts of enthusiasm which, if relentlessly applied, can wear out their followers. Transformational Leaders also tend to see the big picture, but not the details, where the devil often lurks. If they do not have people to take care of this level of information, then they are usually doomed to fail. Finally, Transformational Leaders, by definition, seek to transform.

When the organization does not need transforming and people are happy as they are, then such a leader will be frustrated. Like wartime leaders, however, given the right situation they come into their own and can be personally responsible for saving entire companies. Most companies fail in the execution of strategy because they lack transformational leadership. Top management should give the support required in the implementation of performance contracting to ensure successful implementation. Providing this kind of leadership is one of key issues in implementation process. They should also ensure staff training, communication and follow-up
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter details the research design that was used to achieve the objective of the study which was to identify the processes that NSSF in the implementation of performance contracting and also to find the factors affecting implementation process.

3.2 Research Design

The research was conducted through a case study design. The aim was to equip the researcher with in-depth information on how NSSF as an organization managed to implement performance contracting successfully. The case study is an appropriate research design as it undertakes in-depth analysis of NSSF as a unit hence facilitates intensive study of the same.

3.2 Data Collection

Primary and secondary data was collected for the study. The primary data collected was largely qualitative. It was then gathered using the interview method. The respondents were the key informants in management positions at NSSF. Secondary data was from Strategic management reports and various statutory reports. The relevance of this data was to provide information on performance contracting implementation processes at NSSF. A face-to-face interview was conducted. This technique was considered appropriate for this study because it increases the likelihood that respondents agree to respond by the interviewer explaining to them the importance of the interview and assuring them of its confidentiality.
Face-face interviews also gave the interview a human face which allowed the interviewer the opportunity to make questions easier. The nature of the study required the participants to reveal some information about some personal job variables, which were sensitive to some people. This technique was thus appropriate particularly because it helped the researcher to assure the participants of confidentiality on potentially sensitive issues. The chosen participants for this research were key informants who are actually the people who sign the performance contracts starting with the managing trustee. The interview was then cascaded down to deputy managing trustee, the departmental heads and then to the assistant managers. These key informants therefore gave objective information for this research which was to identify practices and processes in the implementation of performance contracting at NSSF.

3.3 Data Analysis

The content analysis technique was used to analyze the data. The findings emerging from the analysis were then be used to compile this report. Content analysis is defined as a technique for making inferences by systematically and objectively identifying specified characteristics of messages and using the same approach to related trends Nachmias and Nachmias(1996).It is a methodology in the social sciences for studying the content of communication. Earl Babbie(2000) defines it as "the study of recorded human communications, such as books, websites, paintings and laws." It is most commonly used by researchers in the social sciences to analyze recorded transcripts of interviews with participants.

Lasswell (2001) formulated the core questions of content analysis: "Who says what, to whom, why, to what extent and with what effect. It makes use of themes where a concept is chosen for number of occurrences’. After conceptual analysis, rational analysis is done by examining the relationships among concepts. This method uses probing. The qualitative method can be used to uncover and understand what lies behind the phenomena under study (Nyororo, 2006).
CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter presents the findings of the study based on data collected from NSSF.

The objective of the study was to identify the processes that NSSF pursues in the implementation of performance contracting. Content analysis technique was used to analyze the data.

4.2 Performance of NSSF

Poor performance by National Social Security Fund (NSSF) has been a matter of public concern since 1965. A historical analysis of NSSF service delivery in Kenya revealed a steady decline despite a raft of measures taken to alleviate the situation. The decline was evident in member contributions, registrations, benefit processing, compliance, cost management, suspense containment and resources utilization. Consequently, NSSF adopted the application of Performance Contracts in the management of its affairs in June 2005.

The research and development manager confirmed that, since the introduction of performance contracting at NSSF, the results achieved for the last five-year period are impressive. He further confirmed that in the first Regional Social Security Forum for Africa held in Kigali Rwanda, NSSF Kenya scoop the international Social Security Association (ISSA) Good practice Award. This coveted prize took cognizance of the productive implementation of performance contracting. The manager gave the results of performance contracting in form of a table shown below.
Table 4.2 Results of Performance Contracting 2003/2004-2007/2008

<table>
<thead>
<tr>
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<th></th>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>New members</td>
<td>110,508</td>
<td>117,508</td>
<td>139,100</td>
<td>174,343</td>
<td>214,729</td>
</tr>
<tr>
<td>Contributions Kshs. Billions</td>
<td>3.415</td>
<td>2.72</td>
<td>2.47</td>
<td>3.813</td>
<td>5.093</td>
</tr>
<tr>
<td>Investment Income (Ksh. Billions)</td>
<td>2.15</td>
<td>2.72</td>
<td>2.47</td>
<td>3.813</td>
<td>5.093</td>
</tr>
<tr>
<td>Voluntary Members</td>
<td>513</td>
<td>571</td>
<td>1306</td>
<td>3567</td>
<td>7586</td>
</tr>
<tr>
<td>Customer Satisfaction level</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>55%</td>
<td>66%</td>
</tr>
<tr>
<td>ISO certification (%)</td>
<td>-</td>
<td>-</td>
<td>10%</td>
<td>25%</td>
<td>80%</td>
</tr>
<tr>
<td>Suspense account Reduction (%)</td>
<td>20.30</td>
<td>16.79</td>
<td>15.50</td>
<td>14.47</td>
<td>12.49</td>
</tr>
<tr>
<td>Benefit Processing Period</td>
<td>60</td>
<td>60</td>
<td>21</td>
<td>20</td>
<td>16</td>
</tr>
<tr>
<td>Benefits Claims paid (Ksh. Billions)</td>
<td>2.23</td>
<td>2.3</td>
<td>2.85</td>
<td>2.344</td>
<td>2.399</td>
</tr>
<tr>
<td>Net Surplus/Deficit) (Ksh. Billions)</td>
<td>(0.312)</td>
<td>0.329</td>
<td>1,570</td>
<td>4,222</td>
<td>5,117</td>
</tr>
<tr>
<td>Cost Reduction Savings (Ksh. Million)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>173.18</td>
<td>204</td>
</tr>
<tr>
<td>Corruption Eradication</td>
<td>-</td>
<td>55%</td>
<td>69%</td>
<td>90%</td>
<td>95%</td>
</tr>
</tbody>
</table>

Source: Good practice in social security paper No. 1 vol.2 pp.5 (2008)

He confirmed that, as a result of implementing performance contracts, corruption eradication, ISO certification, and customer satisfaction level shot from negative to 95%, 80% and 66% respectively. Other indicators were new membership and suspense account reduction which improved substantially as shown in Table 4.1.5
An analysis of the growth in membership was done and represented in form of a bar graph as shown in Fig 4

Fig 4: Results of PC in growth of membership

It can clearly be seen that since introduction of performance contracting in 2005, there was a sharp increase in the growth of membership. The research and development manager explained this as attributed to the application of performance contracting in the affairs of the fund, the other indicators analyzed were investment income, contributions, and Benefits claims paid. The results were represented in fig.5.
Figure 5 clearly shows that the performance of NSSF was declining in terms of contribution, benefits payment and Investment income between the years 2003 and 2005. However immediately after the adoption of performance contracting at NSSF in June 2005, this trend changed upwards.

4.2.1 How Performance Contracting Has Improved Achieving Fund Objectives

A performance contract is a tool of remedying the situation of multiple objectives by agreeing on the preferred objectives, which the owner would like achieved. It addresses the multiplicity of principles by requiring one agency to sign on behalf of all of them Kaufman (2002). The widely accepted rationale for performance contracting is that public agencies have multiple principles.
The fuzzy objectives lead to poor financial performance in most cases. The intention of the study was to find out the processes that have been used by NSSF to successfully implement performance contracting under this scenario of many principles and fuzzy objectives. The study also looked at the factors affecting the implementation process. From the discussions in the interviews made to the CEO it was clear that in the implementation of the performance contracts NSSF top management only focused on achieving the major objective which is registration of members, collection of funds and payment of benefits when they fall due. The interview revealed that, the implementation of performance contracting at NSSF was fairly a success because the signing of the contracts itself acted as a springboard towards concentrating and focusing in the achievement of the paramount objectives.

4.3 Performance Contracting Practices at NSSF

Interview done to the research and development manager revealed that, the practices that NSSF has embraced in the implementation of performance contracting are creating public awareness of NSSF operations through mass media, developing quality objectives, publishing its annual accounts, pursuing ISO certification, staff training, increasing its market share by voluntary membership recruitment, investing in information technology, research and introduction of new products, customer focus and satisfaction, moving towards compliance with regulatory body, and sponsoring motion of change NSSF from provident fund to a social insurance pension scheme.

The process of strategic plan implementation requires resources and as such NSSF has allocated funds for this endeavor. Purchase of information technology equipment and infrastructure has been done, investment in staff training through workshops and recruitment of new staff members and marketing. The policy documents for strategy formulation and implementation at NSSF mentioned in the survey were; NSSF strategy 2006-2009, Service delivery charter, NSSF charter,
ISO certification, Policy in training and record management. Under the training of staff, the Human Resources manager confirmed that, those in the management team were exposed to performance implementation processes and approaches like training on Rapid Result Initiative (RRI), Total Quality Management (TQM) and Resource-Based Management (RBM).

All the managers interviewed agreed to the statement that, performance contracting process involves achieving of stated objectives and expected outcomes. They confirmed that NSSF management applied several approaches and practices to ensure these are realized. According to them, the innovative strategy followed to achieve the objectives involves developing and implementing strategic plans and ensuring that they are linked to national policy documents, identifying growth oriented targets upfront in financial and non-financial, service delivery, operational and qualitative sectors; assigning weights to targets, signing performance contracts, cascading contracts to lower levels, ensuring achievement of targets, ensuring facilitation to achievement of targets, monitoring and evaluation of performance monthly, quarterly and annually, rewarding performers and sanctioning failure as the case may be, preparing employees in the Fund for the desired changes in working styles and attitudes and work ethics.

4.3.1 Introduction of Performance Contracting at NSSF

NSSF adopted the application of Performance Contracts in the management of its affairs in June 2005. The development and eventual signing of performance contracting is done by top management as a result of free negotiation between them and the government agency. The parties agree on the targets to be achieved at the beginning of the year and evaluation is carried out at the end of the performance period.
This helps application of incentive to good performance and sanction to poor performance. Given that the signing of the performance contracts cascades down the organization hierarchy. In the interview, the CEO confirmed that, at the beginning of the financial year, all the senior managers at the head office and the branch managers across the country are called for detailed briefing of the performance contract signed by the Managing trustee and the board of trustees.

The Branch manager signs a contract with the customer service manager while the other senior managers sign with their respective departmental heads. The branch managers are given the responsibility to educate the staff members in their branches. All the respondents in the survey admitted to being aware of policy documents for strategy formulation and implementation at NSSF. The vision for the institution is communicated through Corporate strategic plan and performance contracts, Seminars and training, Newsletter and other publications, Notice board, brochures and company website, It is placed at strategic places accessible to all.

Emphasis attached on results requires a performance-oriented management culture that is guided by the right value and behaviors. The introduction of performance contracting into the civil service introduces a performance-oriented culture that will facilitate the attainment of desired results. The contracts are expected to instill accountability for results at the highest level in 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. Performance contracting is thus a good concept to be implemented in any organization and thus NSSF managers have not been left out. It is for this reason that the study sought to see the processes pursued in the implementation process. It therefore looked at the importance attached to performance contracting at NSSF.
The aim was also to know how far the management of the fund is committed to the implementation process. It was evident from the interviews that NSSF top management attached a lot of importance to performance contracting since all managers interviewed agreed to this statement. When it came to allocation of resources and inputs in the implementation of the performance contracting, the managed used resources optimally given that it was viewed as good practice and given a lot of importance.

From the interview contacted to the research and development manager, it was concluded that the resources and inputs have been used optimally to implement the practice. Financial resources are pre-determined via budget process, which further conforms the contracting process. Human resources are assigned appropriately in a way that ensures that each one has a role to play. The framework ensures individual performances contribute to corporate performance. Other resources such as office space, equipment and time are allocated in a way that removes wastage. Performance Contracting ensures this happens since cost management is measured.

4.3.2 Stakeholders in Performance Contracting Process

The interview done to the research and development manager revealed that, the stakeholders in the process of performance contracting are in different levels. The first level is the government of Kenya being represented by the permanent secretary in the office of the president and the NSSF board of trustees. The next level is the managing trustee and his deputies, then the deputy managing trustees and the senior managers. The government is the Principal, while the NSSF board is the Agent, which is the subordinate entity in the same hierarchy. The Principal is responsible for public policy and also monitors and evaluates performance. The Agent is responsible for implementing public policies and achieving the target agreed upon.
It was further confirmed that, there was an Implementation, Monitoring and Evaluation Committee and its secretariat headed by the Research and development manager. They were appointed by the managing trustee to oversee the whole performance contracting process.

4.4 Feedback Mechanism in the Administration of Performance Contracting

Central to designing and administration of performance contracting is the setting of explicit standards and measures of performance measurement. More transparent methods of reviewing the performance of individuals and organizations and sometimes linking this to rewards and sanctions. Performance contracts have become part of the efforts of the government to respond to demands for results and for demonstrated performance in respect to results by managing and reporting on outputs and outcomes. The mode of feeding back the output into the system to ensure comprehensive view of performance becomes crucial. Majority of the managers pointed out that feedback mechanism was not adequate and the conclusion from the study was that effectiveness and adequacy of the feedback mechanism in administration of performance contracting at NSSF is wanting.

4.5 Factors Affecting the Implementation of Performance Contracting At NSSF

4.5.1 Resistance to Cultural Change

Those who had a culture of laziness were seen to be a major stumbling block as they jeopardize the implementation of the performance contracts. Lack of a clearly defined corporate culture is also a hindrance. NSSF management was seen to luck a performance oriented culture and majority resist cultural change. There is lack of ownership of the strategies adopted by the institution leading to delayed implementation. The old guard resists changes as they see it as a threat to their employment.
4.5.2 Leadership by the Top Management

The top leaders act as change initiators and therefore are a major influence to the strategy implementation process. However, the age of these top leaders was seen as a major concern since it was felt that change could not be effected as it was like trying to teach old dogs new tricks. Frequent change of the top management due to government interference is also a major hurdle to the implementation of performance contracting process in the fund. Performance contracts exhibit some aspects of agency theory in which top management carry out the duties of an agent in managing state corporations on behalf the government; the owner of the agency. One of the attributes of performance contracting is that they are freely negotiated between the government as owner of public agency and that performance targets are set by the agency and not the government.

The study also sought to find out perceived top management commitment in the implementation of performance contracting which they are party in designing. It was clear from the discussion that majority of respondents perceive Top management as playing a leading role in ensuring successful implementation of performance contracts as all the managers agreed to this statement. They pointed out that since performance contracts are expected to instill accountability for results at the highest levels in the government, the top-level officials will hold those below them accountable.
4.5.3 Politics

According to those interviewed in human resource Department, political intervention played part in NSSF reforms. The respondents pointed out that no other public institution with higher turnover of chief executives than NSSF. It works at an average of one chief executive per year. It was clear from the interview that meddling by the government was the source of NSSF problems. Internal and external politics are major hurdles since there are vested interests from the politicians and this often leads to interference from the ministry therefore affecting strategy implementation. Internal politics slow down the process due to incitation of employees by change opponents. A chief executive signs a contract with the board of director to meet some agreed targets and achieve specified outcomes but before the expiry of the contract he is fired and another one appointed. In fact before the appointment of the sitting chief executive the fund was running without a board and a CEO contrarily to the act which governs it. This has made it hard for effective implementation of performance contracting and efficient assessment of the same.

4.5.4 The level of Participation, Involvement and Teamwork:

Kotter (1996) averts that successful implementation of any strategy goes beyond conventional management as is known and practiced by most managers. It involves leadership that seeks to establish direction, align peoples’ aspirations, motivate and inspire people. The research sought to know the degree of involvement amongst different levels of staff and also how the external stake holders were involved or consulted over their perception on the implementation of performance contracting.
From those interviewed, they felt that the board of trustees, chief executive officer and senior management were responsible for initiating implementation of performance contracting. The research and development manager and human resource manager revealed that, series of workshops were organized for staff throughout the country. Senior managers were trained and exposed to external business environment so as to enforce the implementation process. They revealed that the signing of the contract starts with the CEO and the board of directors, then the CEO and deputy managing trustee, then to the deputies and the departmental managers. The managers signs with middle managers at the head office and the branch managers across the country. This then cascades down to the lower levels of management team.

NSSF ensures that the employees are involved in the realization of strategy implementation. The measures that have been put in place to ensure that employees cooperate and participate in the implementation of performance contracting are: use of ISO 9001:2000 standards, creating conducive environment, ensuring the grievances are heard, the employees are informed about the importance of the changes; they are invited to participate in the implementation of changes, training of performance contracting implementation approaches like RRI, TQM and RBM, assigning of responsibilities, setting of targets, outcomes and performance indicators. The institution has short term targets and monitors their implementation through the use of performance contracts and follow up activities geared at ensuring that targets for contributions are met within the stipulated time frames. Performance appraisal is used as a measure to ensure that targets are met. The greatest hurdle to this however is that the employees are not rewarded according to their achievements but rather through tribal affiliations leading to the demoralization of achievers.
However, it was complained that teams were not built on trust and therefore their work was often not credible. The team members were often involved in blame games leading to failure to achieve the set goals. Some employees however felt that these teams led to faster implementation of the performance contracts. The findings indicate that there was support for implementation of performance contracts by both the top and lower levels of management team. Closely related to support for implementation is the commitment of resources to ensure successful implementation of performance contracting at NSSF. The findings indicate that the management freely and willingly availed resources thus there was greater visibility of support for success in the implementation process at NSSF.

4.5.5 Information Communication Technology

Some respondents identified lack of ICT knowledge as another factor hindering effective implementation of performance contracting at NSSF. The growth of information technology at NSSF has not proportionately kept pace with the modern information technology requirements. Most staff were seen as being less enthusiastic in embracing ICT. This has resulted in inefficiency in member registration, record keeping, processing and payment of benefits, and maintenance of accounts. The requirements of performance contracting of reducing suspense account, record management and prompt payment of benefits thus has been slowed down by poor ICT knowledge. This has also made it hard for NSSF to acquire ISO certification like other public corporations like National Hospital Insurance Fund, University of Nairobi Kenya revenue authority among others.
4.5.6 NSSF Structure and Position

The current structure of NSSF (in terms of flexibility) was described as fixed structure in that every department has functions and role clearly define, top to bottom command line, while others felt that it did not apply since what thrives is tribalism. The structure was also described as being tall and unsuitable for effective communication flow. The NSSF is driven by corporate goals and objectives mainly the NSSF Act which is the core guiding document. This was seen as a major drawback in the implementation of performance contracting since for effective implementation of any strategy an organization needs to be flexible in its management style.

As a result of the changes recently experienced in the operating environment, the institution has embarked on aggressive marketing, improved financial management, recruitment of members from the informal sector of the economy and customer focused service delivery. On the overall position of NSSF after changes in the external environment is seen as a little bit flexible and ready to face competition from pension schemes providers. Financial management has improved and the corporate image is also changing tremendously. However it was felt that a change in the top management would go a long way in improving the operations of NSSF.
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

From the analysis of the data collected the foregoing discussions, conclusions and recommendations were made. The response was based on the objectives of the study.

5.2 Summary of Findings

The objective of the study was to identify performance contracting implementation processes by NSSF. It also sought to identify the factors influencing the implementation process. The processes for implementation of performance contracting at NSSF are documented in the strategic plan 2006-2009, service delivery charter, NSSF charter and ISO certification, policy in training and record management. The management team was trained on Rapid result initiative (RRI), Total Quality Management (TQM) and Resource based management (RBM).

The innovative approaches followed to achieve the objectives involves developing and implementing strategic plans and ensuring that they are linked to national policy documents, identifying growth oriented targets upfront in financial, non-financial, service delivery, operational and qualitative sectors; assigning weights to targets, signing performance contracts, cascading contracts to lower levels, ensuring achievement of targets, ensuring facilitation to achievement of targets, monitoring and evaluation of performance monthly, quarterly and annually, rewarding performers and sanctioning failure as the case may be, preparing employees in the Fund for the desired changes in working styles and attitudes and work ethics.
These processes and approaches were communicated through corporate strategic plan, seminars and training, newsletter and other publications, notice boards, brochures and company website. It is also placed at strategic places that are accessible to all in the institution. Resource allocation to the implementation process has been done to a greater extent. These can be seen through the purchase of information technology equipment and infrastructure that has been done, investment in staff training through workshops and recruitment of new staff members and marketing.

The implementation of the performance contracting at NSSF is initiated mainly by the top management namely the board of trustees, management team and departmental heads. The parties involved in the signing of the performance contracts were described as steering committees; board of trustees has the overall oversight while the managing trustee acts as the chief executive officer. Departmental heads and middle level managers are also involved in the decision making and steering change in the institution. NSSF has also involved external consultants in formulation of the strategic plan and Designing of Human resource policies.

The key factors that influence the implementation of the performance contracts at NSSF include, politics, culture, corporate image, poor ICT knowledge, The process has not a smooth road is and as such has been met by several hurdles which are lack of ownership of the strategies adopted by the institution leading to delayed implementation, a culture of laziness is a major stumbling block as they jeopardize the implementation of the performance contracts. Lack of a clearly defined corporate culture is also a hindrance. The age of the top leaders was seen as a major concern. Frequent change of the top management due to government interference is also a major hurdle to the change process. Internal and external politics are major hurdles since there are vested interests from the politicians and this often leads to interference from the ministry.
therefore affecting implementation. Internal politics slow down the process due to incitation of employees by change opponents. It was complained that teams were not built on trust and therefore their work was often not credible leading to blame games. However, it’s important to appreciate the positive factors like the commitment of the CEO and the research and development manager in the implementation process. The top management is aware of the key benefits of performance contracting and thus they have offered their support to ensure its success.

5.3 Conclusion

A number of lessons have been learnt from this practice. The persistent challenge of transparency and accountability in public agencies in general and in NSSF in particular, has been addressed. Performance Contracting is viewed against these challenges to be a whole reliable, valid and necessary strategy. The success of the implementation of the Performance Contracts Strategy was highly dependent on leadership being provided by the Managing Trustee. The enthusiasm, commitment, competence and focus provided by the Performance Contracting Implementation, Monitoring and Evaluation Committee and its secretariat, are significantly contributing to the success of the strategy. The Performance Contracting implementation Evaluation Committee has brought into the process a high degree of independence, credibility, objectivity, expertise, experience and professionalism. The strategy has been implemented in an inclusive and interactive manner. The strategy has provided a means of comparing Departments through reliable benchmarks and provided them with opportunities to achieve a high degree of accountability and transparency. The ranking of the Departments is an indicator and reflection of the ability of each department and its management to meet agreed targets and to enhance healthy
competition amongst Departments while improving performance and service delivery. The operationalization of the strategy led to the realization that it is a very effective and efficient planning tool. Corporate planning and the itemization of annual work plans, adequately supported by budgetary provisions and delineation of lines and levels of responsibility for performance, is a necessary tool for effective and efficient management of public resources. During the first year of implementation, not all the managers fully understood the principles behind the strategy, especially in the area of setting targets. Efficient flow and management of information are a necessary pre-requisite to the successful implementation of the strategy.

Performance contracting at NSSF has captured the current performance and raises expectations for improved future performance. The strategy also raises motivation, morale and builds confidence of the consumer of Fund services. Regular monitoring of the implementation of the good practices at NSSF were seen to be applicable to other social security institutions. The research and development manager pointed out that Social Security organizations face similar challenges of performance and thus this good practice is appropriate for replication. However, for this good practice to succeed there must be absolute Government and senior management leadership. Otherwise it will fail because of resistance by implementers. Different organizational situations, challenges and needs call for appropriate solutions. Consequently, a customized Performance Contracting System may differ from organization to organization.
Providing feedback on monthly, quarterly and annual reports and taking corrective action, are necessary as key ingredients for successful implementation of the strategy. Cascading Performance Contract Strategy to all employees not only increases participation but also enhances performance. However, there is evidence that some managers delegated and abdicated their own performance contracts obligations to junior officers who are inadequately prepared.

This signifies lack of commitment by some Managers. There is latent talent in institutions in waiting to be tapped. Performance Contract strategy is a vital aspect in the organizational success hence worthy pursuing and thus the fund management should invest in its implementation. The fund managers need to first own the performance contracting process, ensure they prepare the junior officers adequately for them to take over the implementation process. The practices that still need to be emphasized are monitoring and evaluation of performance monthly, quarterly and annually, rewarding performers and sanctioning failure as the case may be, preparing employees in the Fund for the desired changes in working styles and attitudes and work ethics.

Another conclusion was that the CEO need to be let to run the organization professionally with little political interference for this will improved the tarnished image of the fund. The CEO should ensure he offers enough support since the success of implementation lies in his leadership. Also efficient flow and management of information should be ensured since its a necessary pre-requisite to the successful implementation of the strategy. The management should invest heavily on efficient ICT systems to ensure that the development of ICT knowledge move with the pace of modern technology. Lastly, the management needs to work hard on its culture to change that culture of laziness to a performance oriented culture.
5.4 Recommendation for Further Studies.

The study limited itself to processes in implementation of performance contracting and factors affecting the implementation process. Nevertheless, future researchers could look into the evaluation of the performance contracting implementation process and factors that influence evaluation process given that different organizational situation, challenges and needs call for appropriate solutions.
REFERENCES


Burnes B. (2000), Managing Change, a Strategic Approach to Organizational Dynamics, UK: Prentice Hall.


Manyarkiy, T.J (2006), Challenges facing middle level managers in implementation of Corporate Strategic plan in NSSF. Unpublished MBA project, University of Nairobi


Dear Respondent,

I am an MBA student at the University of Nairobi, specializing in strategic management. Currently I am carrying out a research on the implementation of performance contracting at NSSF.

You are kindly requested to respond honestly and objectively to all the questions in the interview to the best of your knowledge. This information will be used for academic purposes only.

Thanking you in advance for your anticipated cooperation.

Yours sincerely

Rose Kieleko
MBA Student
University of Nairobi.
### Appendix II: N.S.S.F Departments

<table>
<thead>
<tr>
<th>Department</th>
<th>Designation</th>
<th>Number of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Customer Service</td>
<td>Manager</td>
<td>1</td>
</tr>
<tr>
<td>2. H.R.M</td>
<td>Manager</td>
<td>1</td>
</tr>
<tr>
<td>3. Computer</td>
<td>Manager</td>
<td>1</td>
</tr>
<tr>
<td>4. Finance</td>
<td>Manager</td>
<td>1</td>
</tr>
<tr>
<td>5. Investments</td>
<td>Manager</td>
<td>1</td>
</tr>
<tr>
<td>6. Audit</td>
<td>Manager</td>
<td>1</td>
</tr>
<tr>
<td>7. PR/ Marketing</td>
<td>Manager</td>
<td>1</td>
</tr>
<tr>
<td>8. Legal</td>
<td>Manager</td>
<td>1</td>
</tr>
<tr>
<td>9. Estates</td>
<td>Manager</td>
<td>1</td>
</tr>
<tr>
<td>10. Records Department</td>
<td>Manager</td>
<td>1</td>
</tr>
</tbody>
</table>

**TOTALS** 10

Source: N.S.S.F Personnel Department (2009)
Appendix III: Interview Guide

This guide is designed to collect views on the practices that NSSF has taken in the implementation of performance contracting.

**PART A**

Name (optional) .................................................................

Position held .................................................................

Department .................................................................

**PART B: Performance Contracting Implementation Practices/Processes at NSSF (To Research and Development Manager)**

1. What are the general performance contracting practices being pursued at NSSF?

2. To what extent do you think the processes mentioned above are appropriate?

3. What was the issue/problem/challenge addressed by your good Practices?

4. What were the main objectives and the expected outcomes?

5. What is the innovative approach/strategy followed to achieve the objectives?

6. Have the resources and inputs been used in an optimal way to implement the practice?
PART C: Factors that influence the implementation of performance contracts at NSSF

Top Management’s support: Managing trustee’s office

7. Does your organization attach much importance to performance contracting?

8. Is the organization’s top management very committed to implementation performance contracting?

9. Is the feedback mechanism in the administration of performance contracting effective?

10. Contractual appointment of the CEO’S affects the implementation of performance contracts.

11. What is the link between performance contracting and strategic plan?

12. The writing of performance contracting is mutually done not imposed on management.

13. Varied stake holders interests take center stage when drafting performance contracts regardless of goals and objectives stipulated in the strategic plan.

14. To what extent would your good practice be appropriate for replication by other social security institutions?
15. Implementation of performance contracting in public corporations will remain a challenge due to the management styles in these corporations

16. Do you think your organization is very successful in implementing performance contracting?

Staff commitment: Human resource department

17. What are your objectives and expected outcomes in performance contracting?

18. Are the organization members well prepared to implement performance contracting?

19. What measures have you undertaken to ensure employees own the implementation process of performance contracting?

20. What are the major challenges in staff involvement?

Finance department

21. What are your targets and expected outcomes and what processes are in place for achieving the same?

22. Is the budgetary allocation under control to ensure timely implementation of set target?

Thank you all for your cooperation