

**CHALLENGES OF THE IMPLEMENTATION OF PERFORMANCE
CONTRACTING STRATEGY AT THE NATIONAL AIDS
CONTROL COUNCIL, KENYA**

BY

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DECLARATION

This research project is my original work and it has not been presented for examination to any other University.

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

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DEDICATION

I dedicate this project to my beloved husband Kennedy and our two children Natalie and Eli with whose great support, love, understanding and encouragement greatly inspired the writing of this project.

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I thank our Almighty God as my source of all inspiration, good health and provision of finances that enabled me to complete the writing of this project.

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ABBREVIATIONS AND ACRONYMS

AAPAM	African Association for Public Administration and Management
CBOs	Community Based Organizations
DPMD	Development Policy Management Division
ERS	Economic Recovery Strategy for Wealth and Employment
GoK	Government of Kenya
MDAs	Ministries, Departments and Agencies
MoH	Ministry of Health
MOU	Memorandum of Understanding
MTEF	Medium Term Expenditure Framework
NACC	National AIDS Control Council
OECD	Organization of Economic Cooperation and Development
PC	Performance Contract
PDP	Personal Development Plan
RBM	Result Based Management
ROM	Results Oriented Management
STIs	Sexually Transmitted Infections
UN	United Nations

ABSTRACT

Performance contracting is one element of broader public sector reforms aimed at improving efficiency and effectiveness while reducing total costs. A performance contract constitutes a range of management instruments used to define responsibilities and expectations between parties to achieve mutually agreed results. It is a management tool for ensuring accountability for results by public officials because it measures the extent to which they achieve targeted results. The study aimed at establishing the challenges of the implementation of performance contracting strategy at the National AIDS Control Council, Kenya. The study adopted a case study research design. The study utilized both primary and secondary data. Primary data was collected through interview guide while secondary data was gathered from various sources including books, published articles and online journals. The primary data was analyzed qualitatively with the use of content analysis. The study established a number of challenges experienced in the implementation of performance contracting strategy at the National AIDS Control Council. The challenges include inadequate documentation, organizational structure and culture where some employees do not embrace performance contracting as a core activity, lack of reward system, inadequate human resource to support the division charged with performance management, and delays in disbursement of funds to support the identified activities as planned. Among the key recommendations from the study include staff sensitization on the importance of documentation and record keeping after each activity carried out within a given quarter, clarity on the kind of evidence required to meet the set standards, timely disbursement of funds to support the activities identified in the workplan, strengthen the human resource needs to support the division in charge of performance contracting and general sensitization and capacity building of all National AIDS Control Council employees on performance contracting. This study was limited to the National AIDS Control Council, a State Corporation in the Ministry of Health with a number of unique features which limit the direct generalization of the results. This therefore means that information from other State Corporations and other health sectors was not included in this study. Therefore the findings, conclusion and recommendations are only limited to the National AIDS Control Council. Primary data was collected through interviews and the researcher experienced challenges in securing appointments with the respondents due to other competing assignments out of their work stations. The interviews were rescheduled to accommodate the respondents work schedules leading to delays in data analysis. The researcher suggests for further research in performance contracting which is a key element of broader public sector reforms aimed at improving efficiency and effectiveness while reducing total costs. Some public sectors in Kenya have not adopted performance contracting as a management strategy. Given the scope and limitations of this study, the researcher suggests that further research be carried out in all the State Corporations in Kenya. Also the researcher suggests that a similar study be carried out in other public sectors for comparison purposes.

CHAPTER ONE

INTRODUCTION

1.1. Background

Performance contracts or agreements specify standards of performance or quantifiable targets which a Government requires public officials or the management of public agencies or Ministries to meet over a stated period of time (DPMD, 2003). As part of the performance orientation in Government, the common purposes of performance contracting are to clarify the objectives of service organizations and their relationship with Government and to facilitate performance evaluation based on results instead of conformity with bureaucratic rules and regulations (DPMD, 2003). The setting of specific performance targets, in a format that can be monitored aims at providing a basis for evaluating performance and improving accountability in the public enterprise sector (DPMD, 2003). This illustrates the shift in emphasis from the input and procedure oriented controls of the past to the new paradigm of output or results oriented controls.

The study used four theories namely the goal theory which states that employees are motivated by clear goals and appropriate feedback (Locke, 1968), the stakeholder's theory which is a theory of organizational management and business ethics that addresses morals and values in managing an organization (Phillips, 2003), the happiness and success theory which states that people feel happy when they achieve their set goals and the diffusion of innovation theory which explains how, over time, an idea or product gains momentum and or spreads through a specific population or social system.

Performance contracting is one element of broader public sector reforms aimed at improving efficiency and effectiveness while reducing total costs (Domberger, 1998). A Performance Contract constitutes a range of management instruments used to define responsibilities and expectations between parties to achieve mutually agreed results. It is a useful tool for articulating clearer definitions of objectives and supporting innovative management, monitoring and control methods and at the same time imparting managerial and operational autonomy to Public Service Managers. It is, therefore, a management tool for ensuring accountability for results by public officials because it measures the extent to which they achieve targeted results (Greer, Youngblood, & Gray, 1999).

National AIDS Control Council (NACC is a semi autonomous agency under the Ministry of Health in Kenya. The NACC was established in November, 1999 as a State Corporation through a Legal Notice No. 170 of 1999. At its inception NACC was domiciled in the Office of the President under the Ministry of Special Programmes until 2013 when it was placed under the Ministry of Health through Executive Order No. 2/2013. The NACC is vested with the overall responsibility of coordinating the multi-sectoral national HIV and AIDS response in Kenya.

1.1.1 The Concept of Performance Contracting

The term performance contracting can be traced from France in the late 1960's and other countries including India, Pakistan and Korea (OECD, 1997). It has been adopted in developing countries in Africa, including Nigeria, Gambia, Ghana and now Kenya (Kobia & Mohammed, 2006). Prior to this period the business environment was rather stable and therefore strategic planning was entrusted in the hands of the top management of the organization. This practice was counterproductive as Managers who were implementers of the strategic plans were not involved at the formulation stage.

Earlier, management tools such as the Carrot-and-stick policies and behavior which were common in the 19th century industrial age had become increasingly irrelevant to modern management practices and therefore, this called for more flexibility and adaptability in strategic planning, forcing managers responsible for implementing strategies be involved in all stages of strategy formulation (Barclays Africa, 1997). Steiner, (1983) speculates that many of the strategic planning systems failed to link planning to resource allocation and did not place emphasis on strategy implementation. He further observed that the existing systems failed to reward managers and employees for strategic thinking, creativity and innovation. This led to disenchantment with strategic planning and thus forcing managers to believe that it was of little or no value to the organization.

Performance management is a distinct element of public sector reforms and performance contracting is a key tool of performance management. The establishment of performance management systems is regarded as a means of getting results from individuals, teams, and the organization at large within a given framework of planned goals, objectives and standards. It allows for the setting of targets and the development of indicators against which performance can be later measured. It is an integral part of the public service delivery mechanism and is a process by which an organization can assess whether or not it is delivering the appropriate services, according to its mission and objectives, in the appropriate quantity, at the appropriate cost, at the appropriate time and to the appropriate people (Xavier, 2010).

In order to move the implementation of the public sector reform plan forward, the Government of Kenya developed and launched the strategy for performance improvement in the public sector in 2001. The strategy sought to increase productivity and improve service delivery. It outlined the actions that were necessary to imbed long lasting and sustainable change in the way public services are offered. This strategy was the Results Oriented Management (ROM) approach, which makes it necessary to adjust operations to respond to predetermined objectives, outputs and results. The adoption of this approach therefore demanded a paradigm shift in Government. This called for a transformation from a passive, inward-looking bureaucracy to one which is proactive, outward-looking and results oriented.

Consequently, the Ministries, Departments and Agencies were required to develop strategic plans which reflected their objectives derived from the 9th National Development Plan, the Poverty Reduction Strategy Paper and based on Medium Term Expenditure Framework (MTEF), Sectoral Priorities and Millenium Development Goals.

The use of performance contracts has been acclaimed as an effective and promising means of improving the performance of public enterprises as well as Government departments. A performance contract is an agreement between a Government and a public agency which establishes general goals for the agency, sets targets for measuring performance and provides incentives for achieving these targets (Hunter & Gates, 1998). The success of performance contracts in such diverse countries as France, Pakistan, South Korea, Malaysia, India and Kenya has sparked a great deal of interest in this policy around the world (Wheeler, 2001).

1.1.2: Challenges of the Implementation of Strategy

It is important for managers to understand and identify the pitfalls and challenges that can occur in order to improve the effective implementation process. To know which pitfalls can emerge could help to prevent them and can lead to a more proactive approach. The challenges include planning, the time to execute and implement the strategy, the teams involved in implementation and the interdepartmental relations in the strategy implementation. Implementation of the strategy is threatened when the management fails to involve the officers responsible for implementation in the planning process. Successful implementation of strategy takes more time than its formulation.

The process of implementation must be dynamic and adaptive, responding to unanticipated events. Strategy implementation always involves more people than strategy formulation. This presents challenges of communication down the organization or across different functions. Making sure that processes throughout the organization support strategy execution efforts can be problematical in a large organization.

Another problem is that some top-level managers believe strategy implementation is “below them,” something best left to lower-level employees. This view holds that one group of managers does innovative, challenging work (planning), and then “hands off the ball” to lower-levels for execution. If things go awry, the problem is placed squarely at the feet of the “doers,” who somehow couldn’t implement a perfectly sound and viable plan. Trivedi (2000) pointed out that the problems inhibiting the performance of Government agencies have been identified as excessive controls, multiplicity of principles with multiple and sometimes conflicting objectives, frequent political interference, poor management and outright mismanagement.

1.1.3 Kenya Public Service Sector

In Kenya, performance contracting can be traced back in 1990 through the Cabinet Memorandum No. CAB(90) 35 when performance contracting paradigm was conceived and designed with an aim of having a real impact in changing the way things were being done, creating a new behavior patterns and adoption of positive attitude and work ethics in the entire public service delivery (Kobia & Mohammed, 2006).

The system was expected to return faith on Government services to the citizens and other international stakeholders (Muthaura, 2007). The paradigm was later outlined in the Economic Recovery Strategy for Wealth and Employment Creation (ERS) 2003-2007 (GoK, 2003).

The concept of performance contracting is defined as a freely negotiated performance agreement between the Government and the respective Ministry, Department or Agency which clearly specifies the intentions, obligations and responsibilities of the two contracting parties. It stipulates the results to be achieved by the contracted party and the commitments of Government as the contracting party (GoK, 2010). The performance contract specifies the mutual performance obligations, intentions and the responsibilities of the two parties. It also addresses social, economic and other tasks to be discharged for economic gain. It organizes and defines tasks so that management could perform them in a systematic process and achieve the desired results.

The expected outcome of the introduction of performance contracts includes improved service delivery, improved efficiency in resource utilization, institutionalization of a performance oriented culture in the public service, measurement and evaluation of performance, linking rewards and sanctions to measurable performance, retention or elimination of reliance on public agencies on exchequer funding, instilling accountability for results at all levels and enhancing performance (GoK, 2007).

The Government of Kenya introduced performance contracting in the Public Sector as one of the tools to improve service delivery. Since its introduction in 2004, when only a few State Corporations were participating, performance contracting is now being implemented in a majority of the Ministries, Departments and Agencies (MDAs). The decision to extend its coverage to all MDAs was as a result of the benefits that were beginning to be manifest in participating institutions through improved administrative and financial performance as well as improved service delivery. Ministries were for the first time being required to work towards set targets, draw out service charters with their clients and compare their performance with the best in the world. The results of these efforts were so significant that they won international recognition with various African countries wishing to learn from Kenya's experience (GoK, 2010).

The initiative to introduce performance contracts in public institutions have been driven by changes in political environment in terms of securing better value for money in public service, encouraging greater openness and accountability and for service improvement in delivering with the general public as consumers (Brown, 1996). To improve performance, the Government has continued to undertake a number of reform measures. Performance contracting is part of the broader public sector reforms aimed at improving efficiency and effectiveness in the management of public affairs (Kobia & Mohammed, 2006). However, these reforms have not provided a framework for guiding behavior towards attainment of results or ensured accountability in the use of public resources and efficiency in service delivery. The initiative lacks the performance information system, comprehensive performance evaluation system and performance incentive system (GoK, 2005).

1.1.4 The National AIDS Control Council of Kenya

The National AIDS Control Council (NACC) was established in November, 1999 as a State Corporation through a Legal Notice No. 170 of 1999. At its inception NACC was domiciled in the Office of the President under the Ministry of Special Programmes until 2013. Following the re-organization of Government in 2013 through Executive Order No. 2/2013, NACC was placed under the Ministry of Health (MoH).

As a semi-autonomous organization under the MoH, NACC is vested with the overall responsibility of coordinating the multi-sectoral national HIV and AIDS response. The NACC Vision is “A HIV Free Society in Kenya”. The NACC mandate includes develop policies, strategies and guidelines relevant to prevention of HIV and AIDS, mobilize resources for HIV and AIDS control and prevention and provide grants to implementing agencies, develop appropriate mechanisms for monitoring and evaluating of HIV and AIDS and sexually transmitted Infections (STIs) programmes, coordinate and supervise implementation of HIV and AIDS programmes in the country, collaborate with local and international agencies which work in HIV and AIDS control, facilitate the setting up of sectoral programmes on HIV and AIDS, mobilize Government Ministries, Departments and Agencies (MDAs), Non-Governmental Organizations, Community-Based Organizations (CBOs), research bodies, the private sector and universities to participate in HIV and AIDS control and prevention.

In Kenya, performance contracting is governed by an Act of Parliament under the State Corporations (Performance Contracting) Regulations, 2004. Therefore, all public institutions are legally bound and almost all Government agencies have adopted the performance contract concept. The NACC, as a State Corporation submits its quarterly performance report to the Ministry of Health, The National Treasury, Ministry of Devolution and Planning and Inspectorate of State Corporations. The NACC Performance Contract runs for a period of 12 months from July 1st to June 30th.

1.2 Research Problem

The concept of performance contracting is defined as a freely negotiated performance agreement between the Government and the respective Ministry, Department or Agency which clearly specifies the intentions, obligations and responsibilities of the two contracting parties. It stipulates the results to be achieved by the contracted party and the commitments of Government as the contracting party (GoK, 2010). The performance contract specifies the mutual performance obligations, intentions and the responsibilities of the two parties. It also addresses social, economic and other tasks to be discharged for economic gain. It organizes and defines tasks so that management could perform them in a systematic process and achieve the desired results.

The expected outcome of the introduction of performance contracts includes improved service delivery, improved efficiency in resource utilization, institutionalization of a performance oriented culture in the public service, measurement and evaluation of performance, linking rewards and sanctions to measurable performance, retention or elimination of reliance on public agencies on exchequer funding, instilling accountability for results at all levels and enhancing performance (GoK, 2007).

Public sector reforms have become a common phenomenon around the globe, especially in developing countries. These have become the way of responding to the needs of the taxpayers. One of the key priorities of the Kenya Government is to implement and institutionalize public sector reforms that would lead to an efficient, effective and ethical delivery of services to the citizens. The Government started implementing public sector reforms way back in 1993 with the aim of improving service delivery.

While there have been successes and challenges in the implementation of reforms in public sector, different concepts and newer interventions have been introduced in Kenya. One such intervention relates to performance contracting in the State Corporations and Government Ministries. Performance contracting is part of the broader public sector reforms aimed at improving efficiency and effectiveness in the management of public affairs.

The National AIDS Control Council (NACC) is a semi autonomous agency under the Ministry of Health in Kenya. The NACC was established in November, 1999 as a State Corporation through a Legal Notice No. 170 of 1999. The NACC being a State Corporation is required to participate in performance contracting. The institution was placed on performance contract in the Financial Year 2005/2006 Performance Cycle. The NACC submits its quarterly performance report to the Ministry of Health, The National Treasury, Ministry of Devolution and Planning and Inspectorate of State Corporations. The NACC Performance Contract runs for a period of 12 months from July 1st to June 30th.

Several studies on performance contracting have been carried out to understand the effects, success and challenges of implementing performance contracting as a strategy. Experience in Korea suggested that performance contracting can improve performance. However, the study relied on employee and management opinion (Song, 1988). A study carried out in India showed improvement in dialogue between state owned enterprise management and Government but the effect on performance was unclear (OECD, 1997). A study carried out in China by Shirley & Xu (1998) found out that performance contracting strategy did not improve labour productivity when there was information asymmetry, lack of incentives and commitment of parties to the goals of the contract. In France, performance contracting implementation was introduced in the Directorate General for Taxes (DGI) to specifically respond to two main concerns (Grapinet, 1999).

First as tools meant to ensure consistency in a decentralized context and second, as a tool to enhance pressure on the entire services network in order to improve performance. Kobia & Mohammed (2006) carried out a survey on performance contracting in Kenya and found out that majority of the respondents were conversant with performance contracting. Obaga, (2009) sought to specifically assess the implementation of performance contracting at Kenyatta National Hospital. Korir, (2005) carried out a study on the general impact of performance contracting in State Corporations. Kisilu, (2012) sought to establish the management perspective of factors affecting implementation of performance contracting in Commercial State Corporations, a case study of Consolidated Bank.

Despite the availability of extensive existing literature on performance contracting, there is no information on the challenges of the implementation of performance contracting strategy at the National AIDS Control Council. This study intended to investigate the challenges of the implementation of performance contracting strategy at the National AIDS Control Council. What are the challenges of the implementation of performance contracting strategy at the National AIDS Control Council?

1.3 Research Objective

The research objective of this study was to determine the challenges of the implementation of performance contracting strategy at the National AIDS Control Council.

1.4 Value of the Study

The main purpose of performance contracting is to ensure delivery of quality service to the public in a transparent manner for the survival of the organization (Armstrong & Baron, 2004). Performance contracts specify the mutual performance obligations, intentions and the responsibilities which a Government requires public officials or management of public agencies to meet over an agreed timeframe (Hope, 2001).

The Government of Kenya will benefit from the findings of this study as a major stakeholder at the National AIDS Control Council and use the findings in other state departments, Ministries, Counties and agencies to formulate policies on performance contracting in the public service sector. The study will be of great importance to the National AIDS Control Council as it will identify the challenges of the implementation of performance contract strategy at the national and devolved structures.

The study will be beneficial to management practitioners and academia that may use the findings as a source of reference in various forums. The study will further form a basis for further studies in the area of performance contracting and best practices in its implementation and maximize on its benefits. The research findings will provide crucial literature for reference by other researchers seeking to carry out further research in the same field or any other related field.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter summarizes the information from other researchers who have carried out research in the same field of study.

2.2 Theoretical Foundation

Performance contracting is well explained using various theories. These include goal theory, stakeholder theory, happiness and success theory and Diffusion of Innovation theory.

2.2.1 Goal Theory

Performance contracting is best explained by the goal theory which states that employees are motivated by clear goals and appropriate feedback (Locke, 1968). That working towards a goal provides a major source of motivation. Challenging and specific goals accompanied by feedback lead to higher levels of individual and group performance. Such goals positively affect performance of an individual and direct people's efforts and energies in a particular direction.

Performance contracting is premised on the tenets of goal theory since the targets are specific based on the organization's strategic plan. They are also measurable, attainable, realistic and time bound in nature thus offering clarity to the employees. The targets are challenging in that they are incremental in nature hence the difficulty and complexity of achieving them.

The targets are raised every cycle of the Performance Contract leading to increased performance and productivity from the employees. The employees are regularly provided with feedback on their performance through the quarterly performance evaluation reports and the comprehensive evaluation done at the end of the contract period. The feedback enables the employees to assess themselves and adjust their strategies and efforts to meet the targets. The employees are involved in the target setting and negotiations of the Performance Contract with their supervisors on the performance and achievement of the goals. This leads to acceptance and ownership of the process which in turn enhances employee's commitment and persistence towards the achievement of the targets.

2.2.2 Stakeholder Theory

The stakeholder theory is a theory of organizational management and business ethics that addresses morals and values in managing an organization (Phillips, 2003). It attempts to address the "principle of who or what really counts". In the traditional view of a company, only the owners or shareholders of the company are important and the company has a binding fiduciary duty to put their needs first, to increase value for them. Stakeholder theory instead argues that there are other parties involved, including employees, customers, suppliers, financiers, communities, Governmental bodies, political groups, trade associations and trade unions. The nature of what is a stakeholder is highly contested (Miles, 2012).

Stakeholders are a group or individual who affect or is affected by the achievement of the organization's objectives. Organizations do not operate in isolation but they interact with other players in implementation of the performance contracts. They need to identify the needs of the stakeholders and design appropriate strategies to address these needs. Their involvement in formulation of the strategies in the strategic plans will provide invaluable support during the implementation of the activities. According to Kobia & Mohamed (2006), Ghana transformed the structure and strategy of its rural water supply sector through an extensive dialogue with the major stakeholders in the sector. Out of this process, a new rural water and sanitation policy was developed.

The performance contract formulation process should be consultative. This will create ownership and enable the setting of targets that are realistic by the implementing agency. According to Kobia & Mohammed (2006), the performance agreement of the early 1990s failed to achieve its stated objective because of widespread use of consultants in the formulation of contract plans, including the determination of mechanisms for their monitoring and evaluation.

2.2.3 Happiness and Success Theory

According to the happiness and success theory, which attempt to relate success of work and happiness, people feel happy when they achieve their set goals. Positive anticipation and attendant happiness happens when we predict that we will achieve our goals and feel confident about those predications, perhaps because they have been achieved before. According to this view, happiness is not a permanent state and no matter what we achieve, we will always swing between happiness and sadness (Australia, Industry Commission, 1996).

People feel a sense of their own significance where they have made positive impact on other people they care about. The sense of significance grows with the size of the impact and the number of people affected. Thus, if the impact is felt in the whole organization, they feel pretty significant. The happiness and success theory suggests why it is important to involve employees in setting the performance contract goals so that they can derive happiness from their successes and hope to leave a legacy of key accomplishments (Brown, 1996).

2.2.4 Diffusion of Innovation Theory

Another important theoretical view of analyzing the new performance contract policy in the public sector is by adopting the diffusion of innovation theory. The theory is one of the oldest social science theories. It originated in communication to explain how, over time, an idea or product gains momentum and diffuses (or spreads) through a specific population or social system.

The end result of this diffusion is that people, as part of a social system, adopt a new idea, behavior or product. Adoption means that a person does something differently than what they had previously done. For instance purchase or use a new product, acquire and perform a new behavior to accomplish the set targets. The key to adoption is that the person must perceive the idea, behavior or product as new or innovative. It is through this that diffusion is possible (Rogers, 1962).

On the other hand, diffusion is defined as the process by which an innovation is communicated through certain channels over time among the members of a social system. It is the novelty of the idea in the message content of communication that gives diffusion its special character. According to this author, the general convention is to use the word 'diffusion' to include both the planned and spontaneous spread of new ideas.

2.3 The Origin and Development of Performance Contracting

The concept of performance contracting is historical. Performance Contracts were first introduced in France after the publication of the famous Nora Report on the reform of state owned enterprises in France. They were introduced in the United States of America in 1993 as part of the Government Performance and Result Act (GPRA). To-date, almost all Organization for Economic Cooperation and Development (OECD) countries use some variant of Performance Contracts in managing the public sector (Obong'o, 2009).

In Asia, performance contracting concept was practiced by Bangladesh, China, India, Korea, Pakistan and Sri Lanka. In Africa, performance contracting has been used in selected enterprises in Benin, Burundi, Cameroon, Cape Verde, Congo, Ghana, Guinea, Madagascar, Mali, Mauritania, Morocco, Niger, Senegal, Togo and now in Kenya. In Latin America, Performance contracting has been used in different times in Argentina, Brazil, Bolivia and Venezuela (GoK, 2010).

Performance contracting originated from the perception that the performance of the public sector has been consistently falling below the expectations of the public. Performance contracting is part of broader public sector reforms aimed at improving efficiency and effectiveness in the management of public service. The challenges that have inhibited the performance of Government agencies are largely common and have been identified as excessive controls, multiplicity of principals, frequent political interference, poor management and outright mismanagement (RBM Guide, 2005).

2.4 Rationale for Performance Contracting

The primary theme in performance contracting arrangements is to improve enterprise performance towards its goals such as cost competitiveness, design, quality control and to promote effectiveness and responsiveness (UN, 1995). According to the UN, the performance contracting system addresses three of the key challenges facing public agencies like ill defined and un-reconciled goals, political and bureaucratic intervention on operational decision making and management rewards which are often fixed irrespective of effort or results achieved.

Besides these challenges, the performance of public agencies is sometimes afflicted by poor management and outright mismanagement (GoK, 2005). Public agencies are often accused of lack of accountability to the public and also to their principals. According to Trivedi (2005), two main reasons for lack of accountability have been identified. The public enterprises normally have multiple principals who have multiple and often conflicting goals that the public agency must accommodate. For instance, a public agency in Kenya, in fulfilling its mandate needs to satisfy the following principals: Parliament through legislation, the Parent Ministry, Ministry of Finance for financial purposes, Ministry of Planning and National Development and the Office of the President for Supervision (GoK, 2005).

Trivedi (2005) argues that a performance contract is the management tool that best resolves this impasse. The manager of the public agency will list the objectives of the agency, identify and select performance criteria against which the agency and the manager will be evaluated. In the process, performance contracting improves public agency accountability. They also set targets and spell out responsibility of each party thus solving the challenges of the denial syndrome. The traditional method of performance evaluation of commercial enterprises has been profitability. Public enterprises could be recording losses on the basis of current operations, but such balance sheet results alone are not sufficient to indicate the level of effort put in and the success achieved by the management of public enterprise in improving on their previous year's operations (Commonwealth Secretariat, 1995).

2.5 Challenges of Performance Contract Strategy Implementation

In many African countries, parastatals are confronted with many challenges which constrain their delivery capacities (Lienert, 2003). They include the human resource factor relating to shortages of manpower in terms of number and key competencies, lack of appropriate mindsets that are necessary to support effective service delivery. On the other hand, the gradual erosion of the ethics and accountability has continued to bedevil the public sector in delivering of public services to the people affected. Public sector reforms meant to address these challenges have achieved minimal results (AAPAM, 2005). The effective implementation of performance contracting requires organizations to focus on the following questions: what is the outcome or change that an organization is looking for as a result of the contract? How will the organization measure and evaluate if the result has been achieved? How will the contract affect the organizations' decisions? (AAPAM, 2005).

Organizations may establish performance goals for the duration of the contract or may identify goals on an annual basis and amend the contract based on experience, available funding, changes in target population or other variables (Kiboi, 2006). Organizations experience challenges in identifying concrete outcomes or results for a service. For example, training services may be provided to employees with the goal of disseminating information and modifying people's behavior. However, it may be difficult to track individual employees and determine whether the training changed the behavior and increased their competency.

In order for performance measures to be useful, it must be clear to employees precisely on what is measured and how the measures are calculated. Achieving this degree of clarity between the principal and the agency is one of the most difficult and challenging aspects of performance contracting (Musa, 2001).

2.6 Empirical Studies and Research Gaps

There are various studies that have been reviewed to analyze and evaluate work done on performance contracting. Uusikyla & Virtanen (1999) in a study on performance contracting in Finland found that some of the benefits that were associated with the introduction of performance contracting were improved cooperation between the state agencies themselves, improved coordination between the Ministry and its subordinates agencies, improved commitment to the strategic goals set by the Ministry and better linkages with planning and budgeting process.

In Mauritius, Chittoo, Ramphul, & Nowbutsing (2009) found that there was very complex communication in the public service with each Ministry jealously guarding its sphere of influence. This suggested that performance contracts in Africa may not have had meaningful impact on internal communication and among institutions. The Government of Kenya (2010) through a panel of experts set up to review performance contracting since implementation in 2004.

The experts studied the performance contracts and shed light on areas such as: the framework and design of the performance contracting system applied since 2004, the performance contracting process, the performance contracting evaluation system and process, the critical learning points from the performance evaluation results reported over the past three financial years and citizen participation, expectation and perceptions. The report was too broad and failed to address specific areas such as quantified effects of performance contracting on performance of the organization.

Kobia & Mohammed (2006) in their study “Kenya experience with performance contracting” reckon that performance contracting has revolutionized service delivery in the public service. The study assumed a descriptive and qualitative design and results were based on 280 senior public servants who were attending a workshop at the Kenya Institute of Administration and were drawn from various Ministries across the country. This implies that the study was spread so thin to enable sound conclusion. A study by Ochieng (2010) on “public sector reforms and performance contracting” observed that in the 1990s, Kenya public service was among the countries which had suffered “damaged image” both locally and internationally. The study revealed that performance contracting had instilled discipline to the public institutions by ensuring adherence to work plans, strategic plans, sector plans and Vision 2030 blue print. The study noted that the paradigm enabled recognition of performers from non-performers leading to a competitive public service.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research methodology that was applied in carrying out the study. It describes the research design, data collection and the technique for data analysis that was used.

3.2 Research Design

The research was a case study of the National AIDS Control Council of Kenya. Case study designs are appropriate when in-depth information is desired for describing phenomena of interest in a single unit of study (Bryman, 1989, Kothari, 1990). Case study research is also good for contemporary events when the relevant behaviour cannot be manipulated. Case study research uses a variety of evidence from different sources, such as documents, artifacts, interviews and observation, and this goes beyond the range of sources of evidence that might be available in historical study.

According to Cooper and Schindler (2003), descriptive research is concerned with finding out who, what, where, when and how of a relevant phenomena and was definitely relevant for this study since the researcher intended to describe the challenges of the implementation of performance contracting strategy at the National AIDS Control Council.

3.5 Data Collection

Both the primary and secondary sources of data were used to obtain information for the study. Primary data was obtained through personal interviews. The personal interviews were done for three Heads of Departments, 10 Divisional Heads and 10 Supervisors. This enabled the researcher to collect the various views from the senior management team who are in charge of contract negotiation and the middle level management who implement the contracts.

The respondents were identified from three departments namely Coordination and Support, Policy, Monitoring and Research and Finance and Administration. The ten Heads of Divisions interviewed included Performance Management, Strategy and Planning, Monitoring and Evaluation, Coordination and Support, Technical Support, Finance, Communication, Management Information Systems, Procurement, Internal Audit and Legal Services. The supervisors were drawn from the 10 divisions indicated above.

3.6 Data Analysis

Content analysis was used to analyze the data. The data was carefully cleaned, sorted and coded before content analysis was done. The analyzed data was interpreted and conclusions drawn with a view of relating the content or theoretical arguments to the context of the study.

Data analysis is a process of inspecting, cleaning, transforming and modeling data with the goals of highlighting useful information, suggesting conclusions and supporting decision making (Mugenda & Mugenda 2003). Data analysis that is well done gives proper meaning to the entire process of research.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the data analysis, results and discussion of the findings of the study. The research objective of this study was to determine the challenges of the implementation of performance contracting strategy at the National AIDS Control Council, Kenya.

4.2 Background Information

The interviewees comprised of Heads of Departments, Heads of Divisions and Supervisors who form the top and middle level management of the National AIDS Control Council. In total the researcher interviewed twenty respondents out of the targeted twenty three. This represented 86% of the response rate. The chapter presents the responses obtained from the Heads of Departments, Divisions and Supervisors.

4.3: Challenges of the Implementation of Performance Contracting Strategy at the National AIDS Control Council

The study established the following challenges being experienced in the implementation of performance contracting strategy at the National AIDS Control Council.

4.3.1 Inadequate Documentation

Performance contracting is a key assignment and deliverable for the National AIDS Control. The Chief Executive Officer together with members of the senior management team are involved in the performance contracting negotiation, vetting of the performance contracting targets and evaluation of the implementation process. Performance contracting evaluation is carried out annually by external evaluators appointed by the Ministry of Devolution and Planning, Department of Performance Contracting. During the evaluation exercise, the NACC presents evidence to confirm that activities outlined in the work plan to meet the set performance contracting targets were undertaken.

The study established that the National AIDS Control Council has been experiencing challenges in documenting all the evidences for the activities carried out by the various divisions to meet performance contracting targets. The respondents indicated that due to poor documentation and lack of clarity on the type of evidence required, the NACC continued to score lowly in some indicators which affect the composite score for the organization.

4.3.2 Institutional Structure and Culture

Hofstede (2001), referred to institutional culture as the collective programming of the mind that distinguishes the members of one organization from another. Schein (2004) added that organizational or institutional culture embodies a pattern of shared basic assumptions that was learnt by the organization or institution as it solved its problems of external adaptation and internal integration.

It is important for managers to understand and identify the pitfalls and challenges that can occur in order to improve the effective implementation process of performance contracting. The challenges include planning, the time to execute and implement the strategy, the teams involved in implementation and the interdepartmental relations in the strategy implementation.

The study established that the institutional culture at the NACC affected performance contracting implementation since a number of officers had not embraced performance contracting as part of their routine tasks. The respondents indicated that there was a general belief among the staff that performance contracting was the duty of the division in charge of performance management and the top management of the NACC since they were the only ones who sign performance contracts with their heads of departments.

4.3.3 Lack of Reward System

Therkildsen (2001) noted that while performance contracting formulation requires the abilities to conceptualize, analyze and judge, implementation involves working with and through other people and institution of change. It is important therefore that in designing the organization structure and making it operational, key aspects such as empowerment, employee motivation and reward should be considered.

The study established that the National AIDS Control Council has not developed an employee reward system to award the high performers. There is no motivation for the employees who meet their targets as set out in the performance contract. This has caused laxity among the employees since employees who meet the set targets feel overworked and have no motivation to put in more efforts for better results in the implementation of the next performance contract.

4.3.4 Inadequate Human Resource

Pearce & Robinson (2007) agree that strategy and structure need to be mandated and be supportive of each other in order to achieve objective set. Structure is the means by which the organization seeks to achieve its strategic objective and implement strategies and strategic change. The structure of an organization is designed to breakdown how work is to be carried out in business units and functional department. People work within these divisions and units and their actions take place within a defined framework of objectives, plans and policies. Successful performance contract implementation depends on a large part on how a firm is organized.

The study established that the division in charge of performance contracting at the National AIDS Control Council has two members of staff. The respondents indicated that the human resource capacity of the division is inadequate leading to delays in verification of the submitted performance contracting evidence and timely feedback given to the responsible officers.

4.3.5 Delays in Resource Disbursement

The NACC, as a State Corporation under the Ministry of Health is allocated funds from the exchequer through the National Treasury. The NACC participates at the MTEF process and is allocated funds under the health sector. Once the finance bill is approved, the approved budget is divided into four quarters of the financial year. The NACC requisitions the quarterly allocation through the Ministry of Health who in turn makes the request to the National Treasury.

The study established that there are delays in the quarterly resource allocation to the National AIDS Control Council due to the processes involved. The delays affect implementation of planned activities within a given quarter and hence this affect the implementation of the activities and indicators outlined in the performance contract.

4.4 Discussion

4.4.1: Comparison with Theory

Owing to the inherent changes in an organization operating environment and changing demands of both internal and external stakeholders, organizations must involve their employees and external stakeholders on the performance contracting negotiations and implementation processes. This finding supports the stakeholder's theory which attempts to address the "principle of who or what really counts". The theory argues that for organizations to be successful there are other parties involved including employees, customers, suppliers, financiers, communities, Government bodies, political groups, trade associations and trade unions.

Therefore, organizations do not operate in isolation but they interact with other players in the implementation of the performance contracts (Phillips, 2003). In order to meet the performance contracting targets, organizations should set achievable indicators. The happiness and success theory suggests that people feel happy when they achieve their set goals. The management should involve the employees in setting the performance contracting goals that are achievable. Employees are also motivated by clear goals and appropriate feedback (Locke, 1968). Performance contracting is best explained by goal theory since the targets are specific based on the organization's objectives. Some of the respondents indicated that the indicators for their divisions are many in number thus making them unachievable within a financial year.

The study established that the NACC leadership takes the lead in performance contracting implementation. The NACC Board and top management are involved in the negotiation, evaluation and signing of the organization's performance contract. Since performance contracting is a new concept in the Kenya public sector, the process needs the top leadership of the organization to demonstrate innovative strategies for the achievement of the organizational objectives. The study established that the NACC management had an innovative indicator dubbed 'Kenya HIV Situation Room' which is a new concept in the world to monitor HIV data in real time basis. This finding supports the diffusion of innovation theory explains how over time an idea gains momentum and diffuses through a specific population or social system. Employees of the NACC as part of the social system are adopting this new and innovative idea to accomplish the set performance contracting targets.

4.4.2 Comparison with Other Studies

Trivedi (2000) pointed out that the problems inhibiting the performance of Government agencies have been identified as excessive controls, multiplicity of principles with multiple and sometimes conflicting objectives, frequent political interference, poor management and outright mismanagement.

The process of implementation must be dynamic and adaptive, responding to unanticipated events. Strategy implementation always involves more people than strategy formulation. This presents challenges of communication down the organization or across different functions. Making sure that processes throughout the organization support strategy execution efforts can be problematical in a large organization.

Another challenge is that some top-level managers believe strategy implementation is “below them,” something best left to lower-level employees. This view holds that one group of managers does innovative, challenging work (planning), and then “hands off the ball” to lower-levels for execution. If things go awry, the problem is placed squarely at the feet of the “doers,” who somehow couldn’t implement a perfectly sound and viable plan.

The study established that performance contracting implementation at the National AIDS Control Council has not been cascaded to all the employees in the organization. The top management which comprise of the Chief Executive Officer, Heads of Departments and Divisions are the only officers who sign performance contracts. The middle level management is involved in the implementation of the performance contract. This has created a culture and belief among the lower cadres of management that performance contracting is a preserve of the senior management and hence they are unable to differentiate between routine tasks and key performance indicators.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1: Introduction

This chapter presents a summary of the findings discussed in chapter four, conclusions on the challenges of implementation of performance contract at the National AIDS Control Council, Kenya, recommendations, limitations of the study and suggestions for further research.

5.2 Summary of the Findings

Successful implementation of strategy takes more time than its formulation and always involves more people than strategy formulation. The following are the summary of the challenges experienced in the implementation of performance contracting strategy at the National AIDS Control Council: lack of documentation to support the activities undertaken, organizational culture where some employees do not embrace performance contracting as a core activity in the achievement of the organizational objective, inadequate human resource within the division charged with performance management, delays in disbursement of the resources to the NACC by the Parent Ministry within a given quarter, lack of clarity on the kind of evidence required by the division in charge of performance contracting resulting to low quality evidence that do not meet the required standards, late verification of evidence and lack of timely feedback to the responsible officers and unachievable indicators for some divisions.

5.3 Conclusion

The study sought to determine the challenges of the implementation of performance contracting strategy at the National AIDS Control Council, Kenya. based on the findings in relation to the research objective, the study concluded that there are inherent challenges that need to be addressed for successful implementation of performance contracting at the National AIDS Control Council.

The study concluded that documentation and record keeping for activities undertaken as stipulated in the performance contracting indicators was inadequate. The study concluded that there was need for sensitization and clarity on the required PC evidence which was affecting performance evaluation results. There was fatigue on the two staff in the division charged with the responsibility of overseeing the activities of performance contracting. This resulted to delays in performance contracting evidence verification and timely feedback on the requirements.

The study concluded that delays in disbursement of resources to the NACC by the Parent Ministry is a challenge in the implementation of performance contracting. The study also concluded that lack of clarity on the kind of evidence required by the division in charge of performance contracting resulting to low quality evidence that do not meet the required standards is a challenge.

The study concluded that other challenges include late verification of evidence and lack of timely feedback to the responsible officers on the submitted evidence, lack of documentation to support the activities undertaken, organizational culture where some employees do not embrace performance contracting as a core activity in the achievement of the organizational objective, lack of an independent monitoring and evaluation system to monitor performance, inadequate human resource within the division charged with performance management and unachievable indicators for some divisions.

5.4 Recommendations

Based on the challenges identified, the study recommends that the National AIDS Control Council works closely with the Parent Ministry, Ministry of Health on the timely release of funds allocated to the NACC for execution of activities identified in the workplan. This will facilitate the implementation of the identified activities within a given quarter and hence meet the targets set out in the performance contract. The study also recommends that the National AIDS Control Council initiates a negotiation process with the National Treasury and the Ministry of Health for the approval of direct disbursement of funds to the National AIDS Control Council by the National Treasury to facilitate faster communication and disbursement processes.

The study further recommends that all NACC employees be sensitized on performance contracting and how each employee's role contributes to the achievement of performance contracting targets and organizational goals. The NACC management cascades performance contracting to all levels and sensitize employees to embrace performance contracting as a core and key activity within their divisions.

The NACC management should strengthen the human resource needs for the division in charge of performance contracting for smooth operations in the achievement of the set performance targets and reduce work load for the current staff. The study recommends that the management appoints a committee in charge of monitoring the implementation of the signed performance contract and report on the weakness and threats that hinder implementation and develop mitigation strategies.

The NACC leadership to put in place mechanisms for rewarding high performers whose target achievement is above expectation and reprimand those employees whose performance is below expectation. This will motivate the high performers and encourage those employees whose performance has been below expectation that translates to the low composite score of the NACC. The study finally recommends that in future, the NACC management revises the organizational targets and identify the cross cutting indicators that could be shared evenly among the relevant divisions to avoid overload on one division.

5.5 Limitations of the Study

This study was limited to the National AIDS Control Council, a State Corporation in the Ministry of Health with a number of unique features which limit the direct generalization of the results. This therefore means that information from other State Corporations and other health sectors was not included in this study. Therefore the findings, conclusions and recommendations are only limited to the National AIDS Control Council.

Primary data was collected through interviews and the researcher experienced challenges in securing appointments with the respondents due to other competing assignments out of their work stations. The interviews were rescheduled to accommodate the respondents work schedules leading to delays in data analysis. The researcher did not manage to interview three respondents and thus their feedback was not included in this study and the response rate was not 100% as it was planned.

5.6 Suggestions for Further Research

Performance contracting is one element of broader public sector reforms aimed at improving efficiency and effectiveness while reducing total costs and much of the existing literature is based on secondary data. Some public sectors in Kenya have not adopted performance contracting as a management strategy. Given the scope and limitations of this study, the researcher suggests that further research be carried in all the State Corporations in Kenya.

The study also suggests that a comparative study be carried out to investigate the extent to which State Corporations, Ministries and Departments are implementing performance contracting in Kenya. Comparisons on the differences in the successes and failure of performance contracting in the State Corporations, Ministries and Departments would be an area of interest to explore the factors that enhance and inhibit the implementation of performance contracting in Kenya.

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APPENDIX: Interview Guide

Part A

Interview Guide for Heads of Departments and Divisions at the National AIDS Control Council

1. How long have you worked at the NACC in your current capacity?
2. How is performance contracting implemented at the NACC?
3. How are performance targets set at the NACC?
4. Are employees under you involved in setting performance targets for your function? Please explain.
5. How are resources to meet PC targets allocated to the various divisions and departments at the NACC? In your opinion, are the resources sufficient to carry out activities set?
6. Does the leadership of the NACC attach much importance to performance contract at your level?
7. Does the NACC have an independent monitoring and evaluation system to monitor and evaluate your performance?
8. What are the challenges experienced in the implementation of performance contracts?
9. How are these challenges overcome?
10. In your opinion, has the NACC been successful in implementing performance contract since its inception?
11. If the implementation was done differently, would the results be different? Explain.

Part B

Interview Guide for Supervisors at the National AIDS Control Council

1. How long have you worked at the NACC in your current capacity?
2. Are you familiar with the NACC performance contract?
3. How is performance contract communicated at the NACC?
4. Are you involved in the implementation of performance contract in your department?
Explain your role.
5. How does the NACC prepare its staff in the implementation of performance contracts?
6. Does the NACC have a strategic plan?
7. Do you understand the link between the performance contract and the strategic plan?
8. What are the challenges experienced in the implementation of the performance contract at the NACC?
9. What remedies should be put in place to address these challenges?
10. Is there any other information you would wish to share about your experience with performance contracting at the NACC?
11. If the implementation was to be done differently, would the results be different?
Explain.