PERFORMANCE CONTRACTING, MEASUREMENT AND PUBLIC SERVICE DELIVERY IN KENYA

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DECLARATION

I hereby declare that the work contained in this doctoral research thesis is my original work and has not previously, in part or in its entirety, been presented at any other university towards the award of any degree.

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This PhD research thesis has been submitted with our approval as the university supervisors.

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DEDICATION

This study is wholly dedicated to my lovely wife Winnie and adorable daughters Lisa and Tyna, who bore the brunt of low, and at times altogether lack of attention in the course of carrying out and documenting the research.

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ABSTRACT

Improvement in public service delivery and the consequent increase in customer (public) satisfaction with public services have been at the core of reform programs in many developed and developing countries. The issues of performance contracting, measurement and evaluation are not new phenomena; governments have persistently sought to justify their existence based on their achievements in service delivery to their citizens. The general objective of this study was to establish the relationship between performance contracting and measurement and public service delivery in Kenya, as intervened and moderated by, respectively, political stability and global competitiveness. The concepts of performance contracting, measurement and service delivery are grounded in, and indeed straddle a number of theories that embrace and give credence to these precepts. These theories include theory of Performance, theory of organizational performance management (OPM), theory of Change and Resource-Based Theory of Competitive Advantage. This study was guided by positivist philosophy. The positivist school of thought is based on the assumption that only one reality exists, though it can only be known imperfectly due to human limitations and researchers can only discover this reality within the realm of probability. This study employed a cross-sectional design focusing on the entire population of 470 MDAs. The study relied on secondary data that was already available. The political stability indices were extracted from the World Bank Report on Worldwide Governance Indicators on Political Stability and Absence of Violence/Terrorism, while the data on global competitiveness was obtained from the 2013 World Economic Forum (WEF) report of the World Bank. Further, the various categories of MDAs had, by 2010/11, been on performance contract for differing periods; these are 6 years for both ministries and state corporations, 5 years for local authorities and 4 years for tertiary institutions. The data used for the study was in respect to the five years of 2006/07, 2007/08, 2008/09, 2009/10 and 2010/11, during which period customer satisfaction in the majority of the above categories of public agencies was measured. Descriptive analysis was conducted to bring out the main characteristics of the sample. To test the hypotheses, correlation and regression analyses were carried out to establish the expected relationships between performance contracting and measurement, and public service delivery in Kenya, and the intervening and moderating effects of, respectively, political stability and global competitiveness, on this relationship. In addition, t-test and p-values were used to determine individual significance of the results of the analysis. Assessment of the overall robustness and significance of the regression models was done using the F-test and p-values. Based on the research findings, it can be concluded that performance measurement has a significant effect on customer satisfaction. Secondly, it can be concluded that political stability has an intervening effect on the relationship between performance measurement and customer satisfaction. Further, global competitiveness has a moderating effect on the relationship between performance measurement and customer satisfaction. The outcome of this study is expected impact on a broad spectrum of constituents, among them governments desirous to improve public service delivery, practitioners and academicians in the field of performance measurement and public service delivery, managers of public sector institutions, individual public sector employees and the public, who are the beneficiaries of government services. The study findings reveal a number of questions that still need to be addressed. It will be recalled, for example, that the study established that performance measurement explains 73.6 percent of customer satisfaction levels. Political stability explains 1.8 percent while global competitiveness explains 2.5 percent. The three variables explain 78.5 percent of customer satisfaction levels. Further research is required to establish what other factors could explain the remainder of the customer satisfaction level that was not explained by the above variables.

ABBREVIATIONS AND ACRONYMS

BATHO PELE	Putting People First
GAO	Government Auditing Office
GASB	Government Accounting Standards Board
GCI	Global Competitiveness Index
GIE	Government Invested Enterprise
GIEMA	Government Invested Enterprises Management Act
GPRA	Government Performance and Results Act
G8	Group of Eight
ISO	International Organization for Standardization
KShs	Kenya Shillings
LTDC	Lesotho Tourist Development Corporation
MDA	Ministry, Department and Agencies
OECD	Organization for Economic Cooperation and Development
OMB	Office of Management and Budget
PART	Program Assessment Rating Tool
PC	Performance Contract/Performance Contracting
PI	Performance Indicator
PMDS	Performance Management and Development System
PMMIS	Performance Management, Measurement and Improvement System
PMS	Performance Management System
PUMA	Public Management Committee of the OECD
SADC	Southern African Development Community
SCSB	Swedish Customer Satisfaction Barometer
SEA	Service Efforts and Accomplishments
TQM	Total Quality Management
WGI	World Governance Indicators
WEF	World Economic Forum

CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

Until about four decades ago, the administration and management of the public sector in many countries seemed to have taken on a life of their own. Citizens of most of these countries were regarded as almost after thoughts to the complex network of structures, policies and systems internal to government. However, the recent wave of reforms compelling reversion to customer focus in many governments changed substantially the operating environment for both elected officials and public service employees. The struggle has now boiled down to finding the best and most cost effective ways to continuously engage the public and improve service quality. That means as Eggleton, (1996) states, as elected officials and as public service employees, it can be expected that the words 'service' and 'quality' will become virtually interchangeable in our lives, and the public will certainly look upon that as good news.

Improvement in public service delivery and the consequent increase in customer (public) satisfaction with public services have been at the core of reform programs in many developed and developing countries. Public sector reforms in the past half century have accordingly, been directed at ensuring that public services have the right people, structures and organization capable of developing and delivering the right policies and services, while at the same time ensuring the public service operates efficiently and effectively (Strategic Management in the Irish Civil Service, 1995). This is in addition to the imperative need to expose the management of the public sector and the country to global market forces and competition.

The ultimate objective is to replace unresponsive public service bureaucracies with modern flexible systems geared to the needs of public service customers, which are more responsive to the competing pressures of the outside world and which equip the public service to more effectively meet changing national socioeconomic needs (Humphreys, 1983). Moreover, to accomplish this objective a country needs a government that is smaller and more responsive, that has lower cost but a higher quality of service, that moves more authority to states and localities, and to entrepreneurs in the private sector; that produces fewer regulations and more incentives, and that has more common sense and seeks more common ground (Clinton, 1995). Higher quality of service is about deliberate and continuous engagement and empowerment of the citizen. Braverman & Kuntz (2012) observed that innovative governments are making it easier for citizens to access public services. In addition, the most forward-thinking governments are starting to master the shift from simply administering services, to regularly engaging and empowering citizens, involving them in the design and, in some cases, the delivery of the services. This shift is not just about increasing choice and well-being; it is also about boosting government productivity, with the help of technology and the use of open data.

Further, the private sector's responsiveness to customer demands has led to heightened public expectations of government. Since people can do their banking, shopping, payment of utility bills and money transactions online for example, they would expect to for example, be able to apply for passports, identity cards and driving licenses, and submit tax returns online as well, and governments are investing and struggling to meet these expectations.

Since recorded history began, governments have sought to justify their existence not merely by appeals to the divine right of the king or emperor, but also by their mighty achievements. In the modern era, democratic governments and political parties regularly praise their own achievements on behalf of the citizens, or include promises of results in their manifestos (Talbot, 2005). Citing the Organization for Economic Cooperation and Development and Public Management Committee (OECD –PUMA), 1997 report and OECD 2005, Talbot (2006) observes that there has been a massive rise in attempts by governments across the globe to better measure and report upon the results of public activities over the past two decades, and that the current wave of reform in this area is larger, broader, deeper and longer than all previously recorded attempts.

A report prepared by Farrell and Goodman (McKinsey & Company, December 2013) headed "Government by design: four principles for a better public sector", explored the daunting challenges governments are facing today. It observed that in a world characterized by macroeconomic uncertainty, rapid social change and technological innovation, citizens' expectations of what government ought to deliver are rising. On the other hand, governments are hampered by unsustainable debt burdens and shrinking budgets. For example, by 2013, the ratio of general government debt to Gross Domestic Product (GDP) for member states of the OECD exceeded 100 percent (OECD Economic Outlook No. 93, June 2013). Meanwhile, public trust in government is eroding and against this backdrop, not only must governments do more with less, they must do so in highly visible ways, if they are to regain the faith of their constituents.

On the basis of research findings by the McKinsey Center for Government into hundreds of cases of government innovation around the world, their ground experience working with governments, and numerous conversations with public-sector leaders and thinkers, the report concludes that what works today is a more disciplined, systematic approach to solving public sector management problems—in short, "government by design".

This model requires public officers who are willing to abandon tools and techniques that no longer work and who embrace the rational and the analytical over the purely ideological. The four principles for a better public sector include the use of better evidence for decision making and greater engagement and empowerment of citizens. The use of better evidence for decision making, and engagement and empowerment of citizens is insured through implementation of an appropriate and strong performance management, measurement and improvement system.

1.1.1 Performance Contracting

The key challenge practitioners and authors in the field of performance management have been grappling with in the pursuit of performance improvement has been the question of developing a flexible yet powerful model of performance measurement, management and improvement; one that is grounded in theory, supported by research, and able to communicate complex relationships while maintaining simplicity (Lopez & Hutchinson, 2013). A systemic model for performance measurement and management that is sensitive to transactional relationships across performance levels (that is, individual, group, organizational and external impact) and contexts. Yet, as Cho & Yoon (2010) observe, despite shared interests in human performance management as well as complementary agendas for research and practice, dialogue between academics in Human Performance Technology (HPT) and Human Resource Managers (HRM) appears to be lacking.

Many government dispensations, in attempts to transform their public services, have developed systems that involve employees in improving organizational effectiveness by focusing them on achieving the organization's mission and strategic goals. These are essentially performance management systems (PMSs) designed for implementing strategy by communicating organizational goals and objectives, reinforcing individual accountability for meeting those goals, and tracking individual and organizational performance results. They are therefore, largely tools to address the immediate performance shortfalls, without necessarily meeting the criteria of models that are both theoretically sound and attendant to the needs of practitioners.

There are many and different types of performance management and measurement frameworks with variants of the core PMS tools, particularly measurement and evaluation. Among these are the Performance Contract (PC), (Trivedi, 1994), the Balanced Scorecard (BSC), (Kaplan & Norton, 1992), the Performance Prism (PP), (Neely et al, 2002), the Results and Determinants Framework (RDF), (Fitzgerald et al., 1991), the Strategic Management and Reporting Technique (SMART), (Lynch & Cross, 1991), the Performance Measurement Matrix (PMM), (Keegan et al., 1989), the Performance Management Questionnaire (PMQ), (Dixon et al., 1990), the Du Pont Pyramid of Financial Ratios, Brown's Performance Framework (BPF), the Performance Pyramid and the European foundation for quality management's business excellence model.

The bulk of these are however, designed to drive performance in respect to revenue and profit generating organizations. Others place greater emphasis on the strategic management processes with scanty regard for measurement and evaluation. Moreover, except perhaps for the BSC, the PC and BPF, the bulk of the rest have not embraced measurement frameworks with balanced measures, that is, indicators that measure both financial and non-financial aspects, including processes. The BSC and the PC are the most commonly known and used; the former largely in the corporate sector and the latter mainly in the public sector.

The BSC emerged in the private sector in the early 1990's as a framework for measuring performance. The finished product shows a list of goals for a specific time frame next to the activities and measures used to achieve them. The goals traditionally focus on four areas: financial performance, the customer, internal business processes, and innovation and learning, (Poister, 2004). The BSC links strategy to a set of indicators, both financial and non-financial (Chan, 2004). The tool was introduced by Kaplan & Norton in 1990 and is basically also a performance contracting tool. The intention was to measure both the short and long term objectives of organizations and provide a holistic view of how organizations are performing (Kaplan & Norton, 1996). According to Whittaker (2001), a balanced approach allows consideration of all the important operational measures, at the same time allowing a view on whether improvement in one area is achieved at the expense of another area.

A PC on the other hand, is a management control system tool for selected public enterprises (Trivedi, 1994). The system began as a reaction to the perception of the general public that public enterprises had not performed as was expected of them. This perception resulted in outpourings of public enterprise literature focused on two categories of solutions to the perceived poor performance of public enterprises. One branch of the literature focused on privatization of public enterprises, while the other focused on performance improvement or, as it has been variously termed, privatization of the public sector style of management, through performance contracting (Trivedi, 1994). In essence, the objective was to improve enterprise performance towards its goals, such as international competitiveness in cost, design, quality control, delivery and marketing, or developing a backward region.

The system addresses three of the key problems facing public enterprises which are; ill-defined and unreconciled goals, political and bureaucratic interventions in operational decision-making and management rewards which are fixed irrespective of effort or results (Bennet, 1990). Thus, PCs aim to bring private enterprise conditions into public enterprises, and to encourage initiative, innovation and the spirit of entrepreneurship for the purpose of achieving targeted results effectively and efficiently. The objective of the performance contracting policy was to simultaneously increase managerial and operational autonomy as well as accountability (Trivedi, 1994).

Unlike privatization, where public assets are privatized, the policy seeks to privatize the public sector style of management. It is, in essence, an attempt to move the public sector style of management away from ‘control by procedures’ to ‘control by results’, (Trivedi, 1994). According to Trivedi (1994) there is a general consensus that there are only two

main types of PCs, and all other arrangements fall under one or the other. These are the French-based system and the signaling system (which originated in Pakistan and South Korea). The difference between the two is that the French contract plans do not allocate weights (and point calibrations) to targets. Thus, there is no distinction between targets in terms of emphasis (by weighting them differently), and as such, measurement and evaluation of performance is affected by a high degree of subjectivity.

This system is practiced in France, United Kingdom, China, Senegal, Benin, Coted'Voire, Morocco. The signaling system, which assigns weights to indicators, was practiced in India, Pakistan, South Korea, Bangladesh, and Philippines, Nigeria, Ghana, the Gambia and Bolivia (Trivedi, 1994). The two systems, including the countries that subscribed to each of them, are shown in Appendix I. A number of countries under each of the systems abandoned the system along the way, owing to waning political support, resource deficits, general apathy, or a combination of them. The public sector in Kenya implements the signaling system. In nearly all the countries where performance contracting has been implemented, or attempts have been made to introduce the system, his has been carried out as part of broader public sector reforms. This has equally been the case in Kenya.

1.1.2 Background to Public Sector Reforms in Kenya

A Cabinet Memorandum of 2004 traces the genesis of public sector reforms in Kenya to the period following independence in 1963, a period that saw excessive recruitment in the public service resulting in serious imbalances between allocations for operations and management and personnel emoluments, without commensurate improvement in service delivery. Personnel emoluments grew from 47% of the recurrent budget in 1984/85 to an average of 70% in the 1990's, and up to 95% in some ministries.

The situation was exacerbated by low pay and shortage/lack of working tools. The government responded by introducing the Civil Service Reform Program and Action Plan in March 1992, and the Civil Service Reform Program (CSRP) in August 1993. The program was implemented in phases. The first phase focused on rationalization of staffing, comprising the voluntary early retirement, imposition of employment embargo, issuance of personal numbers to control the specter of irregular recruitment and 'ghost' workers, payroll cleansing, retrenchment, and withdrawal of guaranteed employment for university graduates.

Despite these reforms, performance continued to plummet as resource wastage continued to rise. This prompted government to introduce CSRP II as a Medium Term Strategy guided by the 'strategy for performance improvement in the public service' in March 2002. This was essentially the foundation of performance contracting as it provided for, inter alia, setting performance standards and benchmarks for public servants, institutionalizing strategic planning in the public service, improving staff appraisal, and undertaking public service delivery surveys in ministries to determine service delivery levels, constraints and bottlenecks, as a basis for developing performance improvement programs for all major service areas. The overriding objective of the reforms was to create a leaner, efficient, motivated and more productive public service, equipped to focus finance and human resources on the delivery of core public services.

The reforms were quickly followed by immediate direction to the public service to, among others: Develop strategic plans and annual work plans to allow for proper utilization of resources on clearly identified core functions; objective staff appraisal; better and improved method of supervising staff based on achievement of set targets,

development, introduction and institutionalization of performance based management practices, undertaking service delivery surveys in all ministries/departments and developing and installing service charters with clear service benchmarks and standards in order to enhance efficiency, transparency and accountability in service delivery, carrying out immediate and comprehensive benchmarking exercise to identify the minimum costs of delivering government services and thus enable cost reductions in government activities and placement of all Permanent Secretaries and Chief Executives of state corporations on performance contracts.

Kobia & Mohammed (2006) have traced the background to performance contracting in Kenya to the period before the 1990's. According to them, the concept of performance contracting was first introduced in the management of state corporations in 1989 with the issue of a Parastatal Reform Strategy Paper by the cabinet in 1991. The objective of this initiative was to streamline and improve the performance of State Corporations by among others, rationalizing the enabling environment of all strategic parastatals, including removal of potentially conflicting objectives and making transparent, the cost of social services and compensating the parastatals for social obligations.

The first two parastatals to be on Performance Contracting were the Kenya Railways Corporation and the National Cereals and Produce Board. Kenya Railways signed PC's in April 1989 and National Cereals and produce Board signed in November 1990. According to the authors, the two PCs did not produce the expected results because of lack of political goodwill to drive the process as it was perceived to be donor-driven, failure to incorporate performance incentive systems, and overlooking the impact of external factors. The PC initiative was accordingly re-introduced in 2003 under the Economic Recovery Strategy for Wealth and Employment Creation.

1.1.3 Performance Measurement

Measurement is not an entirely new phenomenon and can be traced back to the beginning of time. Early measurement was based on human body parts. The ancient cubit was, for example, the length of the ancient Egyptian pharaoh's arm, plus the width of his hand. Over the centuries, as more sophisticated needs emerged, more sophisticated measures were developed. In primitive settlements, there was scanty need for measurement. Advances in measurement were driven by powerful needs, such as the need for social interaction, and to move beyond subsistence living, which led to trade and commerce, and the need for understanding and mastery of the physical environment, which led to science. It is trade and commerce that gave rise to most of early practical measurement, including weight, length, width, size, quantity, time, and monetary measures. Measurement is, at its root, a social phenomenon, not a detached calculation of numbers. In fact, measurement was created to facilitate socialization, and its further development and effectiveness depend on a socialization process.

The social nature of measurement is well exemplified by how the measurement of time evolved from social need. In early cultures, time was not very important, and the position of the sun in the sky was sufficient for the level of time-consciousness needed at that period. As people became more conscious of time, they started valuing it more, requiring more time discipline. This led to more precise measurement of time, including development of appropriate measurement tools, such as clocks and watches. David Landes (2000) observes that improvements in the measurement of time were the most important physical advances in the history of western civilization, without which few

other advances would have been likely. Further, that all scientific and industrial progress has depended on measurement, continuing development and refinement of increasingly more sophisticated measurement devices such as telescopes, microscopes, x-rays and atomic clocks.

Geniat and Libert (2002) opined, fairly correctly, that "without the capacity to measure, we would be uncertain, literally, as to where we stood and where we are going. We would not know whether we are rich or poor, hot or cold, old or young. The very word 'measure' pervades all fields….you can't make decisions, connections, money, or music without true measurements". To a fairly significant extent, the way we measure success in turn determines the success we attain. Activities, events and programs, which cannot be measured, cannot also be easily replicated, managed, or even appreciated. Spitzer (2007) states that the need to measure things is a result of the need to understand them. Further, that one of the most important keys to the success of an organization is found in the most unlikely of places, a place that would ordinarily be considered complicated, inaccessible, and perhaps, even downright boring. This key to success is already one of the most ubiquitous forces in the organization. It is there waiting to be tapped into; this key to success is "measurement".

Performance measurement is a key component of performance management systems and is employed primarily in attempts to improve organizational performance and service delivery. Brown et al. (2001) states that "Measurement is not only a way of determining what has already happened, which is like 'driving by looking in the rear-view mirror', but is also a way of getting people to act in ways that will bring about desired future

outcomes". A performance measurement system should support both operations and the overall corporate strategy. At the operations level, performance measures should link processes to strategic objectives, and motivate both workers and managers. They should balance financial measures with non-financial measures such as measurements of waste and of customer satisfaction. Over the long run, good performance measures will help support organizational transformation and organizational learning, and sustain competitiveness." In complex organizations, the need to measure performance at both the individual and organizational levels may stem from the need to understand the nature of the actions or behaviors that contribute to high or low levels of performance.

There are as many perspectives on performance measurement as there are different practitioners and writers, although the perspectives ultimately converge. These myriad perspectives prompted Franco-Santos et al, (2007) to state that "There is a lack of agreement on a single definition of performance measurement". Clearly though, performance measurement refers to the process of obtaining the numerical information that quantifies inputs, outputs, and performance dimensions of processes, products, services, and the overall outcomes. Measurement has been recognized as a crucial element to improve business performance, (Sharma et al., 2005). A performance measurement and management system is therefore a balanced and dynamic system that enables support of decision-making processes by gathering, elaborating and analyzing information, (Neely et al., 2002). The concept of "balance" refers to the need to use different measures and perspectives that, tied together, give a holistic view of the organization (Kaplan & Norton, 1996).

All measures are relative. A measure that is not referenced to something else has no meaning. According to Thomas Fuller, (1608 – 1661) "Nothing is good or bad but by comparison". Amaratunga et al, (2001) state that performance measurement is logically governed by a number of principles. A measurement system promotes productivity by focusing attention on issues important to the organization; managers can, for example, be measured by the efficiency and effectiveness of the units they manage. Productivity and effectiveness of any function can be measured by some combination of cost, time, quality, quantity or other human relation indices. Effectiveness and efficiency measures help motivate people and make them feel better about what they are doing and about themselves. The value of performance measurement is summarized as follows: if it can't be measured, it can't be managed; what gets measured gets watched and what gets watched gets done (Drucker, 1999).

Meaningful performance measurement goes way beyond application of formulae or the mere computation of numbers. In this regard, it should be possible to measure expectations and undertakings and produce results that will help managers to make the right decisions regarding continuous improvement of performance. To be meaningful, a performance measurement methodology should not only dovetail into the overall PMS, as a key complement to performance improvement but should be the central part of the system. Performance measurement under the American Government Performance and Results Act (GPRA) for example, envisages among other benefits, that it would be a good way to convert evaluations that derive lessons from past experience, into wisdom and insight that influence planned activities, and to link activities to program goals and program goals to the mission.

1.1.4 Public Service Delivery

A public service is a service provided by the government to the public. The need for services that no individual can, or will pay for, but that benefit all by their presence, is the key justification for taxation. Examples of such services are sewage and garbage collection and disposal, street lighting and cleaning. On a larger scale, security, infrastructure, education and public health, are also public services. Public service delivery is the implementation of those services and making sure they reach the people and places they are intended for. A public service is a public trust because it is a non-profitable association with government that gives its loyalty to its people by doing good things to empower society. In the broader sense, service refers to the quality of customer service, service accessibility, speed of delivery, affordability, reliability, courtesy and completeness, and the measured appropriateness of assistance and support provided to a customer. As former US president Clinton, (1995) put it in the forward to "Commonsense Government – Works Better and Costs Less", "…government needs to change along with the people it serves". Further, that "…we need to cure the anxiety and alienation many people feel toward their government. People will regain confidence in government if we make it work better. We need to make quality management the culture of government so that no future administration can fail to embrace it" (Clinton, 1995).

This shift is not just about increasing choice and well-being; it is also about boosting government productivity, with the help of technology and the use of open data. The Estonian government's e-services portal for example, visited by more than 10,000 users every day, allows residents to perform an ever-expanding array of tasks including applying for unemployment benefits, paying taxes, registering new companies, and even

voting. But being citizen-centric is not just about the Internet. Australia for instance, has pioneered mobile government offices, satellite-equipped trucks that serve as one-stop-shops for government services for people living in remote areas. Innovative governments are creating new ways for citizens to make their voices heard, giving them the ability to provide input into regulations, budgets, and the provision of services.

Regulations.gov, one of the US government's earliest e-government programs, allows citizens to search, view, and comment on federal regulations. Users post more close to 30,000 comments on the site every month. Other governments are going even further to solicit citizen feedback; in 2010, Iceland picked 950 citizens at random to participate in the drafting of a new constitution, a significant example of "deliberative democracy" at work. The city of Cologne, Germany, has used participatory budgeting in which residents helped decide how to allocate a portion of the municipal budget. Citizens can play an important role not just in the design but also in the delivery of public services. New York City's 311 system allows residents to report non-emergency complaints about things like potholes or garbage collection via a website, a mobile application, text messaging, Skype, or phone. Thanks to the Open311 platform, a free web-based application programming interface, the city now processes 60 percent of service requests online, lowering transaction and issue resolution costs. Open311 platforms have been rolled out to other cities as well, including San Francisco and Chicago. These platforms, along with third-party apps such as SeeClickFix, empower citizens to do some of the work that has traditionally fallen to municipal employees enabling citizens to, in effect, act as city inspectors.

In similar vein, the mayors of Boston and Philadelphia have each created an office of new urban mechanics, which works with residents to fund and launch promising projects that address civic needs. Citizens, not government employees, come up with the ideas and do much of the work, but also reap the benefits. The trend toward participatory government will only gain in strength. By engaging and empowering citizens to co-design and co-deliver public services, governments cannot only better meet citizens' needs; they can also shift some of the burden of accountability from the state to the people, allowing high-quality delivery of services in an environment of constrained resources.

In Kenya, the service delivery aspects of public sector performance, including service standards, cost expectations, time lines and avenues for redress, are set out in citizens' service delivery charters. The charter was introduced in the public service in 2006, as the key performance sub-indicator under the "service delivery" perspective in PCs. The charter is an instrument that documents and broadcasts the services rendered by a public institution, the expected service standard, service quality, requirements to qualify for the service, cost, timelines and avenues for redress. Measurement of achievements on the various aspects of the charter is highly qualitative, determined, as it is, by customer and stakeholder feedback and surveys. Recently, technology has been employed to not only speed up service delivery but to also facilitate measurement.

In 2008, the then Ministry of Immigration and Registration of Persons, under its performance contracting, adopted automation in the issuance of passports and identity cards under a project dubbed *'e-service delivery'*, in the process heralding a revolution in delivery of public service in terms of service quality, accessibility, timeliness,

affordability and speed, to unprecedented customer satisfaction levels. This has now been advanced further to include "huduma" (service delivery) centers which offer, in aggregate, over 40 diverse and most commonly demanded services under one roof, in over 30 counties.

Malaysia has leveraged technology and e-services to improve public service delivery through the creation of multichannel delivery portals such as internet and village kiosk machines, with the objective of enhancing service access through multiple electronic delivery channels, providing internet services where multiple services can be obtained at each delivery channel and improving service quality in terms of speed, reliability, transparency and security (Multimedia Development Corporation, 2007). The challenge then is in devising a PMS that supports calibration, a wider rating scale, and comparative performance rating and thereby inspiring improvement in service delivery.

1.1.5 Determinants of Performance

According to Hansen (1989) there are two streams of research regarding the determinants of firm performance. One is based on the economic tradition and emphasizes external market factors, while the other builds on the behavioral and sociological paradigms focusing on organizational factors as they fit into the environment; the latter therefore focuses on factors internal to the firm. Organizational researchers have developed a wide variety of performance models. Research by Cameron (1986), Goodman and Pennings (1977), Steers (1975) suggests that managers can influence organizational performance by influencing the behavior of employees. This entails taking consideration of multiple factors, among them the formal and informal structures, planning, reward, control and information systems, their skills and personalities and relating these to the environment.

One research stream that has managed to capture these multidimensional aspects is that of organizational climate. The latter encompasses the perceived properties and characteristics found in the work environment that result from actions taken consciously or unconsciously by an organization and which affect behavior, (Steers and Lee, 1983:82). It refers to a broad class of organizational and perceptual variables that reflect individual - organizational interactions which affect the behavior of the individual and provides the conceptual link between analysis at the organizational level and at the employee level. This means that changes in organizational structures, systems and practices can alter climate measures and hence individual performance. Other studies have suggested that organizational climate was directly linked to performance, (Lawler *et al* (1974) and that there are strong linkages between managerial practices and dimensions of organizational climate and firm performance (Simmons & Mares, 1983; Likert, 1961). These studies brought out three key classes of factors that influence performance. These are the following: Organizational factors – structure, systems, size, history; Environmental factors – political, sociological, economic, technological; and People factors – skills, personalities, age.

The study selected key constructs from each of the three categories. That is; organizational factors – performance contracting and measurement system, environmental factors – political stability and global competitiveness and people factors - effective and efficient public service. As discussed later in this study the issue of political stability is critical to the performance of the public service and the country at large. The study captures the aftermath of the 2007/08 post – election skirmishes and the consequent effect on the performance of both the economy and the public service as indicated in

Annexes VIII and IX. The annexes indicate that the aggregate performance of the public service plummeted to its lowest in 2008 in terms of average composite scoring, and in its wake, fell along with the economy, from a real GDP growth rate of 7.1% in 2007 to 1.7% in 2008. The exposition on political stability in subsequent sections in this study makes reference also to the case of the Kingdom of Lesotho, where political instability had driven the performance of the economy to the lowest levels in years. Political stability and global competitiveness were hence used in the study as, respectively, intervening and moderating factors.

1.1.6 The Public Sector in Kenya

The Republic of Kenya has experienced mixed fortunes in its economic development since independence in 1963. This period witnessed undefined government allocation of financial resources to development programs, ultimately declining from 40.80 percent in 1978 to 12.83 percent in 1999, 13.58 percent in 2000 and 13.60 percent in 2002, in proportion to total expenditure (Appendix V), thereby constraining and in many cases stifling the growth of the economy. Moreover, it was not possible, as a result, to correlate development expenditure with economic growth (presumably because of numerous resource leakages) which apparently varied not because of, but in spite of the proportion of development expenditure appropriated by government to the total expenditure, as shown in Appendix VI.

Until 2004 when performance contracting began to take shape in Kenya, public sector management was characterized by considerable inertia, exemplified by inefficiencies in the exploitation and use of national resources, unresponsive service delivery culture and unmitigated graft. This was to change dramatically when PCs became operational. The

performance of both public sector institutions and the economy improved rapidly with the economic growth rate rising from 0.4 percent in 2002 to 7.1 percent in 2007(Appendix V and VIII). Moreover, save for variations resulting from the contribution of non – state sectors of the economy, there seemed to be a similarity between the growth of the economy and improvement in the performance of the public sector as shown in Appendix VIII and Appendix IX. This growth trend was however, to be interrupted by the skirmishes that followed the disputed 2007 general elections. The effects of the skirmishes on the growth of the economy and the aggregate performance of the public service are discernible from the trends graphed in Appendices VII, VIII and IX.

Until March 2013, the public sector in Kenya was made up of 487 public agencies in the executive arm of the government, comprising 46 ministries and accounting departments, 202 state corporations, 175 local authorities and 64 tertiary institutions. Out of these, 486 were on PC. Performance contracting in the public sector in Kenya, whose core focus is performance management, measurement and improvement, was born out of the need to improve performance by re-focusing public service operations and management from inputs, processes, procedures, and activities, to results (outputs, outcomes and impacts). The system is founded on five year institutional strategic plans, which are, in turn, linked to the national vision, and is built around clear performance criteria, indicators and targets, and an elaborate measurement and evaluation system which compares achievement of freely negotiated performance targets with actual achievement. The subsequent evaluation examines the various factors affecting performance.

Although performance contracting was introduced in the country in 2004, it was not until the financial year 2005/06 that citizens' service delivery charters, and the concomitant requirement for service-oriented agencies to carry out annual customer satisfaction surveys, thereby paving the way for measurement of various aspects of service delivery that yield to customer satisfaction, began to take root. Accordingly, ministries, state corporations, and local authorities that were on PC began to incorporate "customer satisfaction" as a key performance indicator under the "service delivery" criterion in their PCs in the financial year 2006/07. It was therefore, not until 2006/07 that measurement and evaluation of performance incorporating "customer satisfaction" was carried out. Tertiary institutions came on board in 2007/08.

1.2 The Research Problem

Until 2004, the foremost obstacles to public service delivery in Kenya had been identified with inefficient exploitation and use of public resources and a largely lethargic public service. These obstacles had a direct bearing on policy and project implementation and the conduct of public servants, which, in turn, affected overall performance and service delivery. Yet, improvement in operational performance informs the quality, accessibility, affordability and speed of public services. Performance improvement is engendered when operations are managed under a performance management, measurement and improvement regime that has an elaborate measurement system because, as Osborne et al, (1992), state, "what gets measured gets done". According to Brown et al. (2001) people make decisions and do their work at least partly based on how they will be evaluated. As a result, they tend to improve in performance aspects that will be measured and rewarded, rather than in un-measured aspects, even if these may not necessarily support organizational goals and customer satisfaction.

Moreover, governments have generally tended to focus on project implementation and not on the quality of performance. They have as a consequence not laid significant emphasis on improvement in service delivery. This study on performance contracting, measurement and public service delivery in Kenya is therefore, motivated by the need to establish and understand the factors that affect and influence improvement in organizational performance in the public sector and ultimately improvement in the quality of public service delivery.

Many governments have made attempts at improving service delivery across public activities and finding generally agreeable, better measures and ways of reporting on their performance has been a great challenge over the past three decades. The issues of performance contracting, measurement and evaluation are not new phenomena; governments have persistently sought to justify their existence based on their achievements in service delivery to their citizens. As early as the start of the 20th century, efforts to scientifically measure such achievements and efforts have been made, but there is little doubt that the current wave of reform in this area is larger, broader, deeper and longer than all previous attempts. It has been asserted therefore, that the measurement of government achievement is here to stay (OECD-PUMA, 1997; OECD, 2005; Talbot, 2005). This study set out to investigate and understand the factors that affect and influence the performance of the public service and the quality of public service delivery in Kenya.

Experiences of Africa's development over the last two decades have consistently demonstrated the need for more intensive efforts towards effectively addressing the continent's major development challenges, the degree of which varies from country to country. It is only recently that these countries are realizing that it is competitive advantage, not comparative advantage that drives economic development. Competitive advantage, driven by public sector efficiency and effectiveness and customer centric approach to public sector governance then is the missing link that defines the difference in performance excellence between virtually resource-deficit countries and resource-abundant nations, mainly in the developing world, as shown in Appendix X, which depicts the performance of selected countries against a number of economic indicators.

The thrust then, is to devise effective systems of qualitative and quantitative performance management, measurement and improvement, which can also be domesticated and replicated in other countries. Governments have critical roles to play in the creation of competitive advantage for respective countries. According to Porter, (1990) this role entails acting as a catalyst to encourage and even push companies to raise their aspirations and move to higher levels of competitive performance; stimulating early demand for advanced products; focusing on specialized factor creation; and stimulating corporate rivalry by limiting direct cooperation and enforcing anti-trust regulations. Creation of competitive advantage is the foundation of global competitiveness for a country.

Effective execution of the role requires an efficient and effective public service, the performance of which forms the basis for measurement and improvement. This then, is about performance improvement driven by an empowered and efficient public service. A number of studies have been conducted across sectors on the concepts of performance contracting, measurement and service delivery. In the research findings by March and Olsen (1989), Peters (1999) and Talbot et al. (2004), the impact of different countries with varying institutional differences on shaping performance practice was an area which had been almost totally ignored, despite the resurgence of institutional-based analysis which was, as yet, largely not applied to performance management and measurement systems.

According to the research findings by Talbot (2005), Japan, the UK and the USA all now have well developed systems of reporting government performance results. In Japan, the Government Policy Evaluation Act (GPEA) has been active since 2001; in the UK the Public Service Agreements (PSA) system dates back to 1998, while in the USA, the Government Performance and Results Act (GPRA), has been operational since 1993. There is still need however, for research on the best forms and systems for reporting the results of performance and how they can best be used. This study sought to establish the role that performance contracting and measurement play in influencing organizational performance and customer satisfaction in public service delivery in the Kenya and the intervening and moderating effects of, respectively, political stability and global competitiveness.

Early studies have focused on policy evaluation as opposed to performance measurement as seen in both theory and practice (Blalock, 1999). Although the two concepts have the same basic aim of establishing the effectiveness and efficiency of various forms of public activity, there is a wide gap in the potential synergy between the two approaches. Accordingly, the term "performance" referred to all measurement of the results of government, public agencies and programs of activity, while policy evaluation tended to focus on programs. Only a few countries have developed more integrated systems that combine evaluation and performance, but it is still not done in most developing countries (Talbot, 2005). Through research within the Kenyan public service, this study sets out to address the contradictions by spotlighting on performance measurement with a more organizational focus, tended towards setting up long-term continuous monitoring systems, which rely slightly more on quantitative approaches and its outputs.

According to the findings of a study conducted by OECD-PUMA, (1997), Blalock, (1999), Peters (1999), Behn, (2001), Talbot et al., (2004), OECD, (2005), Talbot, (2005), Pollitt, (2006) and Radin, (2006), addressing major gaps in performance measurement within the public sector, most current literature about the performance systems has been directed on the types of reporting systems which have emerged for example, the focus on outputs or outcomes and not results like service delivery. Most studies have focused on organizational and behavioral responses to performance policies as opposed to the use of performance measurement in strategic and operational management, including the use of methods such as the BSCs.

Observations at the beginning of this chapter alluded to the genesis of the declining performance of the public sector as emanating from poor exploitation and use of public resources and a lethargic public service delivery culture. Further, prior to 2004, there had been only token efforts at measurement of performance of the public sector, focused primarily on individual employees. Organizational performance was in essence, not measured. Measurement practices were, moreover, directed at compliance with regulations and procedures, rather than on results. Poor and largely unmeasured performance resulted inevitably, in poor service delivery. This study was guided by the use of the performance measurement results and institutional-based analysis in exploring service delivery among public institutions in Kenya, and explored the proposition that performance contracting and measurement done right can improve service delivery by the public sector.

1.3 Research Objectives

The general objective of this study was to establish the relationship between performance contracting and measurement and public service delivery in Kenya, as intervened and moderated by, respectively, political stability and global competitiveness. The specific objectives were to:

(i) Determine the relationship between performance contracting and measurement and public service delivery in Kenya;

(ii) Establish the intervening effect of political stability on the relationship between performance contracting and measurement and public service delivery in Kenya;

(iii) Establish the moderating effect of global competitiveness on the relationship between performance contracting and measurement and public service delivery in Kenya;

(iv) Establish the joint effect of political stability and global competitiveness on the relationship between performance contracting and measurement and public service delivery in Kenya.

1.4 Value of the Study

The outcome of this study is expected impact on a broad spectrum of constituents, among them governments desirous to improve public service delivery, practitioners and academicians in the field of performance measurement and public service delivery, managers of public sector institutions, individual public sector employees and the public, who are the beneficiaries of government services. The key value lies in the demonstration in the study that organizational performance influences service delivery and that to spur organizational performance improvement, performance must be measured. This vindicates the assertion by Brown, et al, (2001), that measurement is a way of getting people to act in ways that will bring about desired future outcomes, and effectively links the performance of the individual to the performance of the institution. It further supports the observations by Nathan (2009) that performance management practices will continue to be questionable unless they are rooted in a performance measurement system.

The study adds to conventional knowledge in the field by incorporating organizational and environmental aspects (political stability and global competitiveness) as respectively, key intervening and moderating variables, on the relationship between performance measurement and improvement in service delivery. In essence, and perhaps more

importantly, the findings of the study should impact on policy formulation and implementation in making it easy for policy makers to determine more accurately what to focus effort and resources on in order to improve service delivery, and the role that good governance, political stability and global competitiveness play in the process.

1.5 Chapter Summary

This chapter provides a background of the study by discussing the key variables and their linkages to the study. The nature of the public service is discussed. A discussion of the research problem follows and it elaborates on the conceptual, contextual and methodological gaps that the study intend to fill. The purpose of the study is presented together with specific objectives which involve establishing the relationship between performance contracting and measurement and public service delivery in Kenya. The chapter also presents the value of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter covers a review of literature in the fields of performance management, measurement and improvement, including key selected factors that influence and impact the relationship between measurement of performance and service delivery. The review vindicates a number of the theoretical underpinnings that inform the role of measurement on performance improvement and ultimately on service delivery, and identifies a number of unexplored consequences and influence of intermediary factors on the relationship. The chapter includes also a contextual and conceptual framework defining the relationships between the pertinent variables, and which forms the basis of this study.

2.2 Theoretical Perspective

The concepts of performance contracting, measurement and service delivery are grounded in, and indeed straddle a number of theories that embrace and give credence to these precepts. This section covers the key theories, including the contextual and conceptual perspectives of the study. It explores the broad literature on performance management, measurement and service delivery, including historical perspectives of the precepts, and the views of various academicians and practitioners. It will be expedient to note that performance measurement is viewed in this study in the context of performance improvement and the extent to which it impels improvement in organizational performance.

2.2.1 Theory of Performance

The Theory of Performance, espoused by Don Edgar (1974), is premised on the perceived enormous potential of humanity to realize extraordinary accomplishments and goals which they do because, as, for example, J.F. Kennedy put it in 1962, challenging Americans to go to the moon, the goals are hard and "…because that goal will serve to organize and measure the best of our energies and skills…" and posits that improvement in performance can be created through the processes of influencing the performer's mindset by engaging them in an optimal emotional state, immersing the performer in an enriching environment and engaging the performer in reflective practice.

It attempts to explain performance and improvement in performance within the framework of six concepts comprising the context of performance, level of knowledge, levels of skills, level of identity, personal factors, and the level of performance upon which the performance of an individual or organization is predicated. Performance therefore produces results that can be classified into the following categories: quality increases; cost decreases; capability increases; capacity increases; knowledge increases; skills increases; identity and motivation increases.

The theory views performance as taking a complex series of actions that integrate skills and knowledge to produce a valuable result. It accordingly informs learning through examining the level of performance of the organization. Performance is a journey, not a destination and the level of performance is the location in the journey. Each level or location indicates the effectiveness or quality of performance.

The precepts of the theory of performance are supported in literature by the works of Tomlinson et al. (2002), and Bransford et al. (2000). They developed a model for effective teaching and learning that included knowledge-centered, learner-centered, assessment-centered and community-centered components. The learner-centered component involves the performer's mindset, while the knowledge and community centered components allude to the immersion into an enriching environment. The assessment centered component embraces elements of reflective practice. Don Edgar sums up the theory by referring to Wiske (1998) the advocacy by Harvard's Project Zero, that when people learn and grow, they are empowered to create results that make a difference. Working and learning together in ways that make the world better, has been a primary goal of higher education throughout the ages.

2.2.2 Theory of Organizational Performance Management (OPM)

Performance management is a set of techniques used to measure success in meeting goals in a business context and is used to evaluate specific processes and systems, the performance of departments or the performance of individual employees. The theory of organizational performance management applies this approach to an organization as a whole, assessing progress toward goals and identifying and adjusting factors which hinder progress. OPM is categorized as a proactive approach to promoting progress toward goal achievement in a business environment. Where an OPM approach is in place, techniques for monitoring progress, including the performance of systems, subsystems, departments and employees, are an integral part of the conduct of business.

OPM runs recurring analyses of systems and makes improvements wherever possible, with the intention of avoiding performance gaps that may impact the achievement of defined goals. The approach is based on analyzing aggregates of performance data in order to measure progress toward defined goals. Top management must set the goals for, for example, increased earnings, increased sales, higher productivity, reduced cost or improved safety. OPM identifies the data relevant to progress toward such goals. OPM will search proactively for possible improvements to systems. OPM solicits participation from both managers and employees engaged in the relevant processes, and from customers and other stakeholders. It also conducts reviews of best practices in the field, including new technological developments and employs data analysis to identify deficient operating systems where improvements are needed.

After the process of analysis and validation improvements are selected for implementation. These may be improvements to the system, technical or staff performance. Managing implementation may include training programs, consultation with affected staff, safety reviews if the improvement calls for changes in the workplace environment, and a generally controlled and measured release of the planned changes. It should also include preparations to monitor the effectiveness of the improvement once it is in place.

OPM has been criticized for vagueness and imprecision. It has been suggested that the performance of the organization is sometimes defined not in terms of tangible, measurable goals but, as Barbara Czarniawska-Joerges and Pasquale Gagliardi put it,

"more like a platonic ideal." Others such as Steven M. Jex have argued that it is problematic to impose a performance management and reward system on an organization; as such systems were originally designed with the performance and behavior of individuals in mind.

2.2.3 Theory of Change

The Theory of Change is a specific type of methodology for planning, participation, and evaluation that is used in the philanthropy, not-for-profit and government sectors to promote social change. The Theory of Change emerged in the 1990s at the Aspen Institute Roundtable on Community Change as a means to model and evaluate comprehensive community initiatives. The Theory defines long-term goals and then bends backwards to identify preconditions necessary for meeting the goals and explains the process of change by outlining causal linkages in an initiative, i.e., its shorter-term, intermediate, and longer-term outcomes. The identified changes are mapped as the "outcomes pathway", showing each outcome in a logical relationship to all the others, as well as the chronological flow. The links between outcomes are explained by "rationales" or statements of why one outcome is thought to be a prerequisite for another. The innovation of Theory of Change lies (i) in making the distinction between desired and actual outcomes, and (ii) in requiring stakeholders to model their desired outcomes before they decide on forms of intervention to achieve those outcomes.

The Theory of Change is a form of critical theory that ensures a transparent distribution of power dynamics. Further, the process is necessarily inclusive of many perspectives and participants in achieving solutions. The Theory can begin at any stage of an initiative,

depending on the intended use. A theory developed at the outset is best at informing the planning of an initiative. Having worked out a change model, practitioners can make more informed decisions about strategy and tactics. As monitoring and evaluation data become available, stakeholders can periodically refine the Theory as the evidence indicates. A Theory of Change can be developed retrospectively by reading program documents, talking to stakeholders and analyzing data. This is often done during evaluations reflecting what has worked or not in order to understand the past and plan for the future.

Theory of Change emerged from the field of program theory and program evaluation in the mid-1990s, as a new way of analyzing the theories motivating programs and initiatives working for social and political change. Carol Weiss popularized the term "Theory of Change" as a way to describe the set of assumptions that explain both the mini-steps that lead to the long-term goal of interest and the connections between program activities and outcomes that occur at each step of the way.

She challenged designers of complex community-based initiatives to be specific about the theories of change guiding their work and suggested that doing so would improve their overall evaluation plans and would strengthen their ability to claim credit for outcomes that were predicted in their theory. She called for the use of an approach that, at first glance, seems like common sense: lay out the sequence of outcomes that are expected to occur as the result of an intervention, and plan an evaluation strategy around tracking whether these expected outcomes are actually produced. Her stature in the field, and the apparent promise of this idea, motivated a number of foundations to support the

use of this technique, later termed “the Theory of Change approach”, in the evaluation of community change initiatives. In the years that followed, a number of evaluations were developed around this approach, fueling more interest in the field about its value and potential application.

In the early days of Theory of Change, Anne Kubisch and others established three quality control criteria. These are plausibility, feasibility and testability. Plausibility refers to the logic of the outcomes pathway; whether it makes sense and whether the outcomes are in the right order. It also attempts to answer the questions: are the preconditions each necessary and collectively sufficient to reach the long-term outcomes and ultimate impact? are there gaps in the logic? Feasibility refers to whether the initiative can realistically achieve its long-term outcomes and impact. Does the organization have adequate resources? Does it need partners? Does the scope, expectations, or timeline of the theory need adjustment? Testability refers chiefly to the indicators: Are they solid and measurable? Will they yield sufficient information to evaluate the success of the initiative? Will they be convincing to necessary audiences? In addition to these three basic quality control criteria, Act Knowledge has added another key criterion: Appropriate Scope. An actionable theory that can be communicated to the key audiences is dependent in part upon choosing the right scope: broad enough to leave no gaps in the model, yet focused enough on the opportunities and resources at hand. Appropriate Scope also integrates the evaluation concept of accountability. Many Theory of Change outcome pathways include an accountability ceiling, often a dashed line drawn across the pathway that separates outcomes the organization will monitor and claim credit for attaining from higher-order outcomes that are beyond its power to achieve for example, “a just society.”

The ultimate success of any Theory of Change lies in its ability to demonstrate progress on the achievement of outcomes. Evidence of success confirms the theory and indicates that the initiative is effective. Therefore, the outcomes in a Theory of Change must be coupled with indicators that guide and facilitate measurement. Indicators may be said to operationalize the outcomes, that is, they make the outcomes understandable in concrete, observable and measurable terms. As the origins of Theory of Change lie in the field of evaluation and monitoring, developments over the years have ensured that the Theory continues to be an invaluable method to conduct evaluations of many different types of projects and organizations. Often posing theory-based evaluation questions helps to focus evaluation efforts on key concerns. As well, there may be a need to pick the right indicators from among the many available, and one can use "monitoring questions" to select the indicators that will be most helpful.

The use of Theory of Change in planning and evaluation has increased exponentially among philanthropies, government agencies, international NGOs, the UN, and many other major organizations in both developed and developing countries. This has led to new areas of work, such as linking the Theory of Change approach to systems thinking and complexity. Change processes are no longer seen as linear, but as having many feedback loops that need to be understood. Consequently, Theory of Change is strengthening monitoring, evaluation and learning. They are also helping to understand and assess impact in hard to measure areas, such as governance, capacity strengthening and institutional development. Innovations continue to emerge.

Theory of Change is essentially a comprehensive description and illustration of how and why a desired change is expected to happen in a particular context. It is focused in particular on mapping out or "filling in" what has been described as the "missing middle" between what a program or change initiative does (its activities or interventions) and how these lead to desired goals being achieved. It does this by first identifying the desired long-term goals and then works backwards to identify all the conditions that must be in place (and how these relate to one another causally) for the goals to occur. These are all mapped out in an outcomes framework.

The outcomes framework then provides the basis for identifying the type of activity or intervention that will lead to the outcomes identified as preconditions for achieving the long-term goal. Through this approach the precise link between activities and the achievement of the long-term goals are more fully understood. This leads to better planning, in that activities are linked to a detailed understanding of how change actually happens. It also leads to better evaluation, as it is possible to measure progress towards the achievement of longer-term goals that goes beyond the identification of program outputs.

2.2.4 Resource-Based Theory of Competitive Advantage

The Resource-Based (RB) Theory has been described as an "inside-out" process of strategy formulation that begins by looking at what resources the firm possesses. This is followed by assessment of the potential of the resources for value generation and ends up by defining a strategy that will allow the capturing of maximum of value in a sustainable way. The process involves; identifying and classifying the firm's resources and appraising strengths and weaknesses relative to competitors, identifying opportunities for

better utilization of resources, appraising the rent generating potential of resources and capabilities in terms of (i) their potential for sustainable competitive advantage and (ii) the appropriateness of their returns, identifying the firm's capabilities: What can the firm do more effectively than its rivals? identifying the resource inputs to each capability, and the complexity of each capability, selecting a strategy which best exploits the firm's resources and capabilities relative to external opportunities and identifying resource gaps which need to be filled. It is therefore about investing in replenishing, augmenting and upgrading the firm's resource base including capabilities, resources, strategy and competitive advantage.

2.2.5 Theoretical Foundations of Performance Improvement

Swanson (1999) contends that performance, a highly ubiquitous and generalizable phenomenon, is mediated through human expertise and human effort. The ubiquity of performance is evident in everyday human discourse with references to such terms as organizational performance, team performance, individual performance, hardware system performance, vehicle engine performance and even class performance! According to the *American Heritage College Dictionary,* to perform is to fulfill an obligation or requirement, to accomplish something as promised or expected. Accordingly, performance is the valued productive output of a system in form of goods and services. The goods and services, viewed also as units of performance, and the fulfillment of the goods and viewed as performance units, are measured in terms of quantity, time, and quality feature measures. In exploring the theoretical foundations of performance improvement, Swanson (1999) makes reference to the key contributors to the individual and process improvement performance perspectives, focusing on the core external

economic, political and cultural forces that drive organizational performance agenda and formula, and proposes a discreet and logical set of theories as the foundation of performance improvement. These theoretical domains are: economic theory; psychological theory; and systems theory.

The **economic theory** foundation requires that performance improvement must include direct analysis, action and measurement of outcomes. That over time, organizations must generate more income than they spend in order to exist. This facet of the theory is underpinned by three perspectives. These are: the scarce resource theory; sustainable resource theory; and the human capital theory. The scarce resource theory postulates that there are limitations to everything and this requires that prudent choices are made regarding the manner in which capital will be employed, and allowing forecasted return on investment to guide decisions on choices between options, Swanson and Gradous, (1988). The sustainable resource theory incorporates the additional concerns of the long term versus short term agenda, and recognizes the dominance of competitive advantage over comparative advantage, premised on human brain power (Thurow, 1993). The human capital theory recognizes the softer strategic issues of training, health and medical care, the virtues of honesty, punctuality, and others such as integrity, as investments in capital with valuable returns that can be calculated. The theme of this theory then is that because performance improvement takes place in economic entities referred to as organizations, performance improvement must of essence invoke economic theory as its basis. Further, as Drucker (1964) observed, management theories and methods must be properly viewed as useful derivatives of economic theory.

The **psychological theory** perspective addresses the core understandings to human behavior and learning and recognizes the immense leverage value that performance improvement initiatives can draw from such concomitant theories as theories of motivation, learning group dynamics, behavioral and social psychology. The psychological theory is based on three perspectives. These are the Gestalt psychology; behavioral psychology; and cognitive psychology (purposive behaviorism). The Gestalt psychology focuses on the holistic view of individuals and their need for holistic based on the believe that people add something to experience that is not contained in the sensory data, and that they understand the world in meaningful wholes (Hergenhahn & Olson, 1993). Behavioral psychology relates to the study of actual human behavior, and suggests that individuals respond the only way they can based on their capacity, experience and the present forces working on them. In contrast, cognitive psychology is about purposive behaviorism that attempts to explain goal-directed behavior and the notion that human beings organize their lives around purposes. The gist of this perspective is that since performance improvement takes place in organizations that are psychologically framed by those who establish and operate them, performance improvement must then call on psychology as a core, (Bereiter & Scardamalia, 1993; Dubin, 1971). According to Bereiter & Scardamalia, 1993; and Ilgen& Klein, 1990), performance cannot be improved if people choose not to perform or do not make significant and persistent, and that workplace systems and systematically designed learning experiences provide a sustainable foundation for performance improvement. Theories of learning, motivation, information processing and other psychological theories therefore comprise a core theoretical foundation.

Systems theory deals with systemic disconnects that affect performance adversely such as failure to clearly specify expected outcomes of an organization, and not having a clearly defined performance improvement system. This theory is made up of a collection of general concepts, principles, tools, problems and methods associated with all manner of systems and comprises threes theory perspectives. These are: the general systems theory; chaos theory; and the futures theory. The general systems theory makes reference to inputs, processes, outputs and feedback and the limitations of a single personality theory in predicting human behavior (Von Bertalanffy, 1962). Boulding (1956) states that a single theory from a single field of study cannot reach a satisfactory level of theory generality and proceeds to refer to a spectrum of theories or 'system of systems' to perform the function of a gestalt in theory building (Boulding, 1956). Chaos theory makes reference and studies phenomena that are unsystematic and which therefore do not follow the rules. The futures theory is about planning for the future in uncertain conditions and liberating people's insights (Schwartz, 1991: 9). It may be viewed as essentially managing risk and the unpredictable vagaries of the operating environment. The futures theory prepares organizations to cope with the future uncertainties and is therefore critical for sustainable performance improvement.

The moral here is that since performance improvement happens in organizations that can be categorized as systems functioning within an ever-changing environment, the systems theory is critical (Buckley, 1968; Gradous, 1989; Senge, 1990). Further, engineering and technology theories should be viewed as useful derivatives of systems theory (FitzGerald & FitzGerald, 1973; Davenport, 1993).

2.3 Performance Contracting and Measurement

Performance contracting as it is known and implemented today is essentially a management tool that identifies organizational goals, decomposes strategic objectives into measurable performance indicators and targets and defines objective methodologies for measuring progress towards achievement of the targets. It therefore encapsulates the full range of the key attributes of managing, measuring and improving performance. To this extent, the performance contracting system is fairly sensitive to transactional relationships across performance levels (that is, individual, group, organizational, and external impact) and contexts (Guerra-López & Hutchinson, 2013).

Viewed from this dimension, performance contracting is rated along with any accomplished Performance Management, Measurement and Improvement System (PMMIS). In this perspective, and within human resource management and allied fields, performance management is typically defined as a set of ongoing, integrated activities that move beyond isolated performance appraisals to strategically measure, manage, and develop human performance within the context of organizational strategy and goals (Aguinis, 2007). Nathan (2009) however cautioned that performance measurement should not be confused with performance management but should instead be seen as a prerequisite for effective management.

The rationale for this distinction is adequately captured by a number of researchers. Aguinis (2007), Aguinis et al (2011), Biron et al. (2011), Hantula (2011), Nankervis and Compton (2006), Pulakos and O'Leary (2011) are in agreement that although organizational use of PMSs is widespread, dissatisfaction among both management and

employees is also high, and the value addition questionable. Performance management has the potential to generate significant value for organizations, but it is frequently ineffective, because it is often viewed skeptically by employees, typically requires a significant investment of resources and capital, and may actually undermine strategic improvement when implemented poorly (Aguinis, 2007; Biron et al., 2011; Pulakos & O'Leary, 2011). These findings can however, be traced back to both poor measurement of important performance indicators and consequently, poor alignment to performance management interventions.

Performance measurement is a central mechanism in both assessment and evaluation, which provides the required data for identifying the most appropriate interventions to measurably improve performance (Guerra-López, 2008, 2010). The robustness of performance management, including its capacity to influence performance is therefore up - scaled by rooting it in a system that quantifies performance and provides evidence-based data, that is, a performance measurement system. Nutt (2007) opines that beyond implementing research findings to improve performance, there is a critical requirement to implement evidence-gathering practices into performance management. Nutt (2007) cites a variety of studies that indicate intelligence gathering is the most over-looked step of the decision making process. In a different study, Nutt (2008) compared the success of organizational decisions among three groups, and found that those who made decisions based on the use of quantified performance data were significantly more successful than those that made decisions on the basis of personal hunches or feelings, or on the basis of consensus of opinions of others. This does not suggest that the two latter perspectives do not have their utility; rather, it suggests that they must be triangulated with independently

verifiable performance data. It can be safely concluded therefore that performance measurement is at the heart of managing and improvement in performance (Rummler, 2004), yet according to the research, it is often over-looked (Clark & Estes, 2000; Guerra-López & Leigh, 2009).

Clark and Estes (2000: 48) noted that highly regarded research groups who surveyed performance improvement solutions found that a huge gap exists between what we think we accomplish and what scientific analyses say we accomplished. These authors cite a number of findings from the National Academy of Science, the National Research Council, and other independent groups, including the fact that the majority of organizational change initiatives are quickly abandoned; transfer of performance solutions shows that even though they may work once, they almost never work in other organizational contexts, because they are not evaluated; one-third of performance feedback strategies fail, and another third make performance worse; and successful performance improvement interventions do exist, but are rarely integrated into the commonly used performance solutions. PMSs provide the information that drives performance management processes and are therefore of critical importance to an effective and efficient PMS (Bititci et al., 1997).

These accounts bring out succinctly, the observation that the core ingredient that impels performance improvement in a performance contract is performance measurement. Indeed, in many countries including Kenya, there is no distinction between performance contracting and performance measurement as their design and development overlap. Neely et al. (1995) described typical process for developing a performance measurement system as shown in the table below:

Table 2.1: Steps in Developing a Performance Measurement System

Step	Action
1	Clearly define the firm's mission statement.
2	Identify the firm's strategic objectives using the mission statement as a guide (Profitability, market share, quality, cost, flexibility, dependability and innovation.
3	Develop an understanding of each functional area's role in achieving the Various strategic objectives.
4	For each functional area, develop global performance measures capable of defining the firm's overall competitive position to top management.
5	Communicate strategic objectives and performance goals to lower levels in the organization. Establish more specific performance criteria at each level.
6	Assure consistency with strategic objectives among the performance criteria used at each level.
7	Assure the compatibility of performance measures used in all functional areas.
8	Use the performance measurement system.
9	Periodically reevaluate the appropriateness of the established performance measurement system in view of the current competitive environment.

To sustain the system, additional requirements in the development of a performance measurement system include providing a maintenance structure, involving key users, securing top management and employees' support, ensuring clear and explicit objectives and setting timescales. This sequence is wholly similar to the sequence employed in the design and development of the performance contracting system in Kenya.

A number of researchers have argued that performance management research in particular suffers from a weak theoretical foundation (Buchner, 2007; Claus & Briscoe, 2009; Hantula, 2011). Others argue that performance management research is too limited to positivist frames that investigate on a particular tool or approach (McKenna et al., 2011; Thorpe & Beasley, 2004). Yet, despite this reliance on prescription, human resource research findings are not being adequately integrated into the work of practitioners, which may be due to differences in goals, interests, or access (Aguinis &

Pierce, 2007; Deadrick & Gibson, 2009; Rynes et al., 2007). The resulting disconnection between research and practice also underscores the necessity for a meaningful model of performance management that is both theoretically sound and attendant to the needs of practitioners and sensitive to transactional relationships across performance levels. Guerra and Alisa (2013) state that among the themes on performance management that have been pursued is one that centers on organizational factors that foster effective performance management. In the quest for achievement of results and excellence in performance, it is important to explore the organizational factors that impel effective performance management. Rather than focusing on aspects of the performance management system itself, this line of inquiry investigates contextual circumstances that may be associated with successful implementation of performance management programs.

Biron and colleagues (2011) drew on signaling theory to examine organizational practices that influence performance management in 16 high-performing global firms, and found that strategically and tactically focused goals, senior management involvement, and robust organizational communication were conditions that appear to support performance management efforts. Pulakos and O'Leary (2011) argue that the manager–employee relationship is a primary facilitator of effective performance management thus, organizations should focus on strengthening this connection rather than continuing to fruitlessly tinker with formal PMS features. This is echoed by Den Hartog et al. (2004: 563) who assert that managers and supervisors play a key role in the enactment of performance management. As such, their consistency, fairness, and skill in using tools will to a large degree determine whether such tools indeed generate positive effects on commitment and employee performance.

Performance contracting entails execution of a performance agreement between a principal or a superior authority, acting as the owner of an agency, and a subordinate or agent, for the purpose of impelling the delivery of targeted results effectively and efficiently. In the public service, performance contracting is defined as the execution of a freely negotiated performance agreement between government, acting as the owner of a public agency, and the management of the agency. The performance agreement, more commonly known as PC, consists of a range of management tools used to define responsibilities and expectations between parties to enable them achieve targeted and mutually agreed results. The agreement therefore specifies what needs to be achieved, expected levels of achievement, timelines, and the evaluation and reporting methodologies. It is also expected to clearly specify the intentions, obligations and responsibilities of the two parties (Trivedi, 1994). It is an attempt to move the public sector style of management away from "control by procedures to control by results and to simultaneously increase the quality of the controls while reducing the quantity of the controls.

According to Trivedi (1994) there is consensus among public enterprise professionals and practitioners that the rhetoric of privatization has far exceeded the reality; that the dramatic turnaround of public enterprise performance in such diverse countries as South Korea, Pakistan and France is testimony to the achievement of the policy of performance contracting. According to an OECD report of 1999, "Les Contrats de Performance", the unifying theme in performance contracting arrangements is in its value as a management tool to promote savings, effectiveness and responsiveness. These key objectives are expressed in terms of performance expectations linked to budget (inputs), service

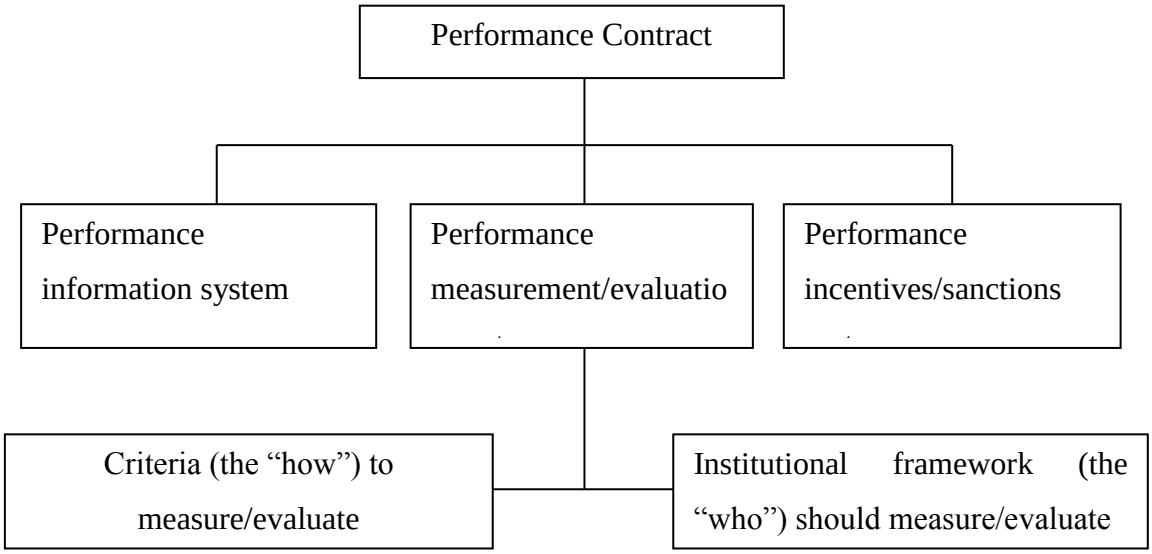
(outputs), impacts (outcomes) and management (corporate capacity). In countries where the system is employed, achievement of these objectives is vindicated, including capacity for performance measurement and improvement in service delivery. According to the report, PCs first emerged in Europe in the 1960's and 1970's, in the context of high inflation and high unemployment, when corporate governments such as France and the United Kingdom used public enterprises to counter these problems.

The French Government introduced stability contracts (contrats de stabilite) to impose price controls on major public enterprises in 1965. In 1967, the Nora Report proposed the use of program contracts (contrats de programme) which would define goals, increase managerial autonomy, set financial targets and obligate the government to pay for the non-commercial activities and policies imposed on the enterprise. The first program contracts were signed in 1970 with the Societe Nationale de Chemins de Fer Francais, (SNCF), the French National Railway, and the Electricity Utility (EDF) in 1969, followed by the Radio and Television Utility (ORTF) in 1971. These early contracts were however, abandoned following the oil crisis of 1973/74, which undermined the ability of either party to fulfill their commitments (Trivedi, 1988, 1990, 1994).

The typical PC is made up of three subsystems; the first one is the performance information system, which ensures symmetry of information between the principal and the agent during the process of negotiating performance targets. This subsystem also defines the frequency and modalities of periodic, continuous or end of year reporting of performance. The second is the performance evaluation system whichconsists of a number of steps relating mainly to the development of criteria for evaluating

performance. The latter focuses on static efficiency which determines whether the agency is making optimum use of its resources; dynamic efficiency, which addresses decisions that entail costs outlays in the present but whose benefits are realized in the future; project implementation that seeks to establish whether projects are being implemented efficiently; achievement of non-commercial objectives which relates to development of systems to measure non-commercial activities; and the computation of composite scores. The third is the Performance Incentives/Sanctions System whichrelates rewards/sanctions to measurable performance. The PC, as a Performance Management, Measurement and Improvement System (PMMIS) is therefore defined by the three subsystems as shown in Figure 2.1.

Figure 2.1: Performance Management, Measurement and Improvement System

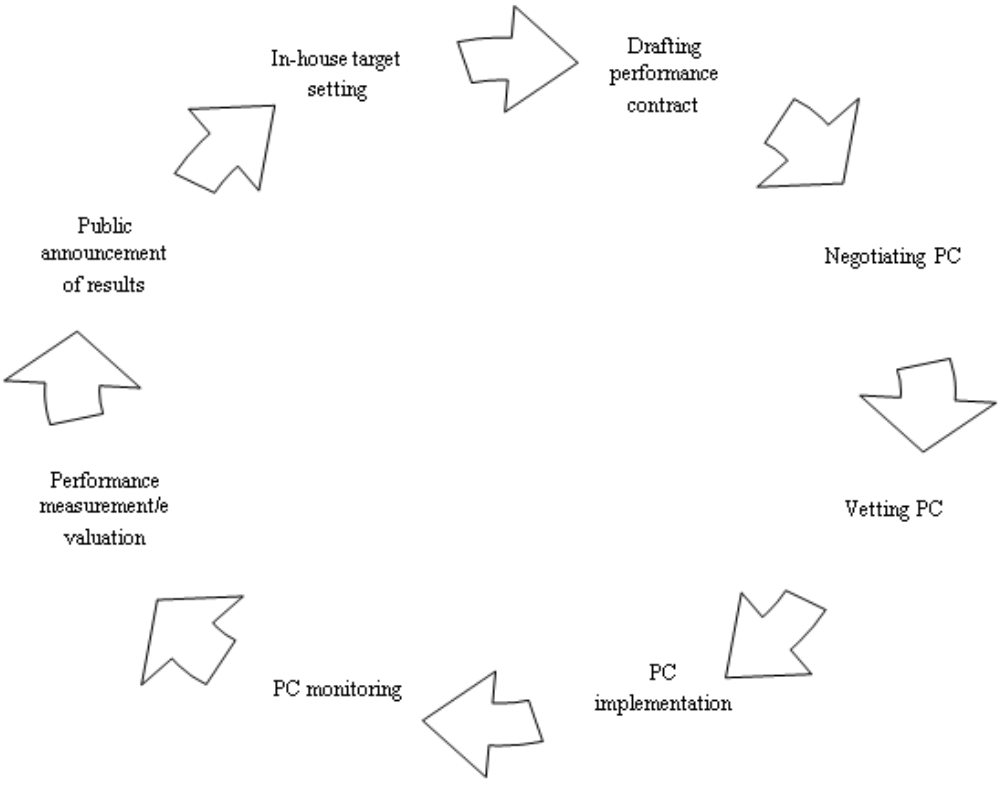


Source: Memorandum of Understanding (Trivedi, 1994)

The architecture of the PC in Kenya comprises a narrative made up of a preamble that sets out the precepts and coordinates within which the parties enter into the agreement, and six consecutive sections: describing the vision, mission and strategic objectives;

listing commitments and responsibilities of the agent; listing the commitments and obligations of the principal; defining modalities of reporting and information flows; defining duration of the contract; and detailing signatories to the contract. The PC, more importantly, includes a PC matrix with six management perspectives (referred to as performance criteria) (Appendix III), the citizens' service charter (Appendix IV) as a separate tool that serves to operationalize the critical performance criterion of "service delivery" and the measurement of the "customer satisfaction" sub-indicator, and a detailed measurement and evaluation methodology. Administration and sequencing of the Kenyan version of performance contracting presumes the existence of a strategic plan and involves the steps depicted in the Figure 2.2.

Figure 2.2: Performance Contracting Cycle



Source: Performance contracting training modules (2011), Office of Prime Minister, Government of Kenya.

The cycle begins with the organization mobilizing for the purpose of setting targets. Since commencement of the process presumes existence of a strategic plan (in the absence of a strategic plan, its (strategic plan) development within the contract year should be featured as a performance indicator with significant weighting, under the "non – financial" perspective), target setting should draw principally from the strategic objectives in the strategic plan, taking cognizance of the detailed Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis that must have informed the decision on the strategic direction to achieve the vision. Moreover, setting of targets must involve as broad a spectrum of employees as possible, in order that each individual, section and division is able to identify and own their niche early enough for effective strategy execution.

The next phase in the sequence is drafting the PC and proceeding to negotiate it with the external experts, referred to as Ad Hoc Negotiation Task Force. Negotiation is carried out primarily for the purpose of ensuring that performance targets are significantly growth - oriented but realistic, that every key operational area is catered for, each indicator is 'tagged' to a strategic objective, and generally that the design of the PC is consistent with the guidelines for implementing PCs. This phase is succeeded by vetting, a term that refers to the process of scrutinizing negotiated PCs to establish conformity to the policy on performance management. The latter is therefore, a quality assurance exercise and is carried out by the core performance contracting coordinating unit, assisted by independent external experts representing the principal. Then follows the implementation phase which lasts for the 12 months coinciding with the financial year, during which performance is monitored continuously or periodically by the principal or his agents. At the end of the contract year, performance is measured by a team of external experts and the results subsequently made public.

As observed, negotiation of PCs and measurement and evaluation of performance are carried out by independent experts drawn from outside the public service. These are external stakeholders selected from the business community, professional associations, academia, civil society, other non-state actors and retired public servants, but in all cases the best in their respective areas of competence. Involvement of external stakeholders in both negotiation of performance targets and measurement/evaluation of performance in the public service is a deliberate strategy to secure public awareness, support and ownership of key performance improvement, service delivery and project implementation initiatives, as the external experts (who are not active public servants) represent the public and also double up as consumers of public services. It also gives credibility and objectivity to the performance contracting system and the results of evaluation (in that government does not set its own performance standards and/or evaluate its own performance), while at the same time taking advantage of expertise that may occasionally, be in short supply in the public service. A copy of a model PC, comprising the main narrative, a PC matrix, and a citizens' service charter, are shown in Appendices II, III and IV.

The period following completion of the study has seen the structure of the performance contract remaining largely the same, except for the addition of a seventh performance criterion, referred to as "National cohesion and national values". In addition, the weighting of individual performance criterion has been adjusted, assigning higher and uniform weighting of 50% on the "operations" criterion across the board, from 25% for ministries and 40% for public universities. This change saw a reduction of the weighting of the "finance and stewardship" and "service delivery" criteria. This is significant because it, in essence, downgrades the hitherto higher focus and emphasis on service delivery. These adjustments are indicated in the tables below:

Table 2.2: Assignment of Weights over Study Period

Criterion		Ministry	Local Authority	State Corporation			Tertiary institution
				Commercial	Non-commercial	Public university	
1	Finance & 1stewardship	20	20	45	20	20	20
2	Non-financial	15	15	10	15	15	15
3	Service delivery	25	25	-	20	10	25
4	Operations	25	25	30	25	40	25
5	Dynamic/ qualitative	10	10	10	15	10	10
6	Corruption eradication	5	5	5	5	5	5

Table 2.3: Assignment of Weights after Study Period

Criterion		State corporation (commercial)	All other agencies
1	Finance & stewardship	35	10
2	Non-financial	10	15
3	Service delivery	15	10
4	Operations	25	50
5	Dynamic/Qualitative	5	5
6	Corruption Eradication	5	5
7	National cohesion and national values	5	5

The adjustments may have been inevitable with the advent of the new constitution, with the additional criterion motivated by the rising polarization among Kenyan communities.

Other post-study developments include the signing arrangements where H.E. the President signs with the Cabinet Secretaries, and Cabinet Secretaries sign with the Boards of Directors of downstream agencies. The case of Departments is a departure from

previous practice where Permanent Secretaries would sign with the Head of the Public Service, with the Prime Minister endorsing the contracts and the parent Permanent Secretaries subsequently signed with Boards of downstream agencies. This is the result of the shift of executive power and functions from Permanent Secretaries to Cabinet Secretaries as provided in the constitution.

2.3.1 Reasons for Measuring Public Sector Performance

Neely (2007) explored the reasons for measuring public sector performance in the provision of public services and identified five reasons. These were; to establish what works, in order to ensure that policy stands on a solid base informed by evidence (Bird et al., 2003). This therefore is done primarily on behalf of policy makers, to identify competencies, which entails comparing performance with other providers, other institutions or some standard or norm in order to bring out good or bad performers. The focus is more on 'how' people have performed and less on what they do (Bird *et al.*, 2003). This is done on behalf of government and policy makers who require data to facilitate comparison, to support public accountability, in consideration that public services are funded by tax payers who are hence entitled to know the manner in which their taxes are being utilized (Bird et al., 2003). To fulfill the need for central government to exercise control over the services for which it is responsible, and which are rolled out using tax revenue (Hofstede, 1981). This serves the interests of government and policy staff who seek to retain central control of decentralized services and is done by introducing performance targets against which progress and performance are measured and symbolic action to enable the political class to engage in activity that reflects their contract with the electorate (Neely, 2007).

It is conceivable that performance measurement can be employed for more than one of the five reasons so long as there is clarity of vision with reasons and objectives for introducing and effecting the measurement. Despite the observed benefits however, performance measurement can conceivably be prone to unintended side effects and dysfunctional behavior, particularly in the process of assessing the outputs and outcomes of activities, programs and projects. Smith (1995) lists a number of dysfunctional behavior types that emerge when quantitative performance indicators are introduced in public service delivery and publicized. These are; tunnel vision - which sees managers focusing only on the quantifiable elements and overlooking the multidimensionality of public sector performance criteria, sub-optimization- entailing concentration on the narrower local objectives and ignoring the bigger picture that is encapsulated in corporate objectives, myopia- this is about short-termism; the pursuit of short term targets in the place of longer-term objectives.

Measure fixation– this is essentially emphasizing only on measures of success rather than the underlying objectives and overlooking outcomes that may be difficult to measure. misrepresentation- a situation where data forming parts of indicators is distorted and manipulated to create a desired impression with targeted audiences, misinterpretation– this results from misunderstandings because of the complex and monolithic nature of public agencies. It may be brought about by capacity challenges or mix-ups owing to the size of operations, gaming– this entails manipulation of behavior to secure desired advantages, for example setting soft targets to attain high scores and ossification– this is about paralysis resulting from inflexibility in evaluation, for example insistence on retaining ambitious targets even when the operating environment and other uncontrollable factors have changed.

Measurement and evaluation of performance in Kenya focuses primarily on how effectively and efficiently management have steered the affairs of an agency, to deliver agreed and defined value and is carried out by computing weighted and ultimately composite scores using the formula:

Managerial Performance = Institutional Performance ± Exogenous Factors.

The overriding objective of performance contracting on the other hand is to ensure achievement of results that lead in turn, to achievement of overall goals while infusing efficiency in the operational processes. The system is fully grounded on performance measurement and relies on the latter to enforce accountability at the individual and corporate levels. It is indeed performance measurement and the results thereof that underwrite the utility of performance contracting. For the purpose of this study therefore, performance contracting and measurement are denominated into performance measurement, which is the core essence of performance contracting.

Khan and Shah (2011) give a detailed exposition of the evolution of performance measurement. According to them, the origin of performance measurement can be traced back to the late 13thcentury in Venice, when double-entry accounting was introduced to settle transactions among traders (Johnson, 1981). Onwards, financial measures for the most part were used to develop cost and management control systems (Kaplan, 1983; Johnson & Kaplan, 1987; Keegan at al., 1989). In late 1980s, after globalization of trade and the emergence of the world economy, markets became competitive and customers were more demanding; the focus thus shifted from productivity to quality, time, cost, flexibility and customer satisfaction (Hayes & Abernothy, 1980; Slack, 1983; Kaplan, 1984). This was the time when researchers highlighted the deficiencies in the traditional

financial measures and criticized it to be inappropriate for measuring business performance. Johnson and Kaplan (1987) were among the first to suggest a shift from cost accounting based performance measurement approach to a more integrated performance measurement approach following criticisms advanced against the traditional performance measures.

The shortcomings in traditional measures resulted in a performance measurement crisis, which led to a revolution in the existing PMSs (Eccles, 1991; Neely, 1999). The emergence of balanced performance measurement frameworks marked the start of the second phase of performance measurement evolution. The term "balanced" refers to using measures that give a holistic view of the organization (Kaplan &Norton, 1996). During this era, the need to use non-financial measures for monitoring performance and motivating employees was stressed (Santori & Anderson, 1987) and included the non-financial measures for being timely, measurable, precise, meaningful, an aid to continual improvement, consistent with company's goal and strategies, and flexibility (Medori & Steeple, 2000). Moreover, researchers accentuated the importance of aligning financial and non-financial measures with the organization's strategy (McNair & Mosconi, 1987).

Throughout the 1990s, researchers were busy designing models and frameworks, as a result of which a number of frameworks were developed such as the BSC (Kaplan & Norton, 1992), the PP (Neely et al., 2002), SMART (Lynch & Cross, 1991), the RDF (Fitzgerald et al., 1991), the PMM (Keegan et al., 1989) and the PMQ (Dixon et al., 1990).

As Neely (2007) puts it, the question that operations managers wanted their performance measurement systems to help them answer was about operational efficiency. Further, a significant stream of literature at the time was associated with the measurement of total factor productivity. Too often, managers hitherto relied on partial measures of productivity, mainly labor productivity. Several authors questioned the veracity of single-dimensional measures of productivity on the grounds that they provided only a partial picture of firm performance (Craig & Harris, 1973; Mundel, 1987). In reality, the productivity a firm achieves is a function of how efficiently it uses all its inputs; labor, capital, technology and energy to produce outputs (Hayes & Clark, 1986).

According to Neely, 2007, by late 1970's, the field of operations management, under which measurement of operations performance was carried out, was in turmoil following a crisis of confidence (Buffa, 1980; Chase, 1980). Throughout the 1960s and 1970s operations research was effectively used in operations management. Operations research techniques, such as linear programming and data envelopment analysis, were applied to pragmatic operations management problems such as lot sizing, scheduling and production control (Charnes et al., 1978; Buffa, 1980; Chase, 1980; Banker et al., 1984). Neely (2007), states that the 1980s saw a rise in the popularity of the "quality gurus", most notably Crosby, Deming, Feigenbaum and Juran.

These developments resulted in a resurgence of interest in the measurement of operations performance, especially in terms of the five operations performance objectives of quality, dependability, speed, cost and flexibility, originally proposed by Skinner (1969). The five objectives essentially under-pin much of the work on performance measurement undertaken subsequently by the operations management fraternity. The notable

characteristics of these objectives are that they are all multidimensional and trade off with one another, the extent to which is time and context specific. Quality, for example, is not merely conformity to established specifications; it should encompass other dimensions such as performance (how well the product performs its primary functions), features (what additional features the product contains), reliability (how long the product lasts before becoming technically obsolete), serviceability (how easy the product is to service), aesthetics (the look and feel of the product), perceived quality (the customer's perception of the product's quality), and value for money (Garvin, 1987; Schonberger, 1990; Neely & Wilson, 1992).

Speed on the other hand, can refer to the time taken to generate quotations, delivery speed, delivery frequency, production speed, and the time taken to develop new products (Stalk, 1988). Dependability can be extended to refer to schedule adherence (keeping to plan), delivery performance (whether the product is delivered on time and in full) and price performance; indeed the general ability to live up to promises. Flexibility can be viewed in the context of both range and response flexibility (Slack, 1983, 1987). The former is the ability to cope with a wide range of requirements while the latter is the ability to change quickly. There is a whole expansive range of other flexibility dimensions (Gerwin, 1987; Slack, 1987), which include material quality (the ability to cope with incoming materials of varying quality), output quality (the ability to produce output of varying quality), new product flexibility (the ability to cope with the introduction of new products), product modification (the ability to cope with the introduction of new products), product modification (the ability to cope with modified products), deliverability (the ability to cope with changed delivery schedules), volume (the ability to cope with changed production volumes), and resource mix (the ability to cope with different production mixes).

In the case of tradeoffs between the objectives, high quality can, for example, be delivered, but potentially at a cost. Tight delivery schedules can be met but perhaps only by investing in additional resources. Operations managers constantly strive to find ways of pushing back the performance frontiers of these five performance objectives by enhancing their operation's capabilities so that the impact of the tradeoffs can be mitigated over time. The continuous search for enhanced operational capabilities under-pins, for example, the manufacturing philosophy of kaizen, the continuous improvement of the operation in the search for new and better ways of delivering performance. The second point to note about the five operations performance objectives is that there are internal as well as external reasons why organizations might wish to excel at them (Slack, 1991).

Higher quality, for example, allows the organization to deliver potentially more valuable products. Higher quality, however, also means fewer mistakes, hence less rework, which is costly to the operation if it has to be performed. Speed means that the organization can respond to customer requests more rapidly, but also that the organization's capital is tied up for shorter periods of time in the form of inventories and work in progress. Similar arguments can be made for each of each of the five operations performance objectives. Hence, one of the key strategic challenges for operations managers is to decide on which of the sub-dimensions of the five performance objectives they wish their operation to excel in and how they can configure the operations to do so. The focus on the five performance objectives was largely fixated on the new perspectives on quality, with Feigenbaum (1961) suggesting that the true cost of quality is a function of three types of quality cost: prevention, appraisal and failure costs. Neely (2007) further states that with the advent of Total Quality Management (TQM), emphasis shifted from "conformance to specification", to customer satisfaction.

In addition, during the 1980s and 1990s period and riding on the work of Skinner on manufacturing strategy (Skinner, 1969), debates in practitioners' and business conferences in the United States and the United Kingdom highlighted how important it was for the operations management community to consider how to align performance measurement systems with operations strategies (Neely et al., 1994). This is because, as Neely (2005) observes, the bulk of work by the operations management community has so far focused on performance measurement rather than performance management despite the fact that measurement on its own delivers little value until the data generated are analyzed and acted upon.

The research and literature in the field of performance measurement has produced a body of knowledge of best practices in the measurement of organizational activity focused on what to measure, (Danks, 2013; Neely et al., 2005). Others have advocated for the use of both in-process and outcome measures or Key Performance Indicators (KPIs); strategic and operational measures; perceptual and tangible measures; descriptive and predictive measures; and a balance among strategic, workforce, customer, financial, and internal business indicators to evaluate performance, (Bititci et al., 1997; Harbour, 2009; Kaplan & Norton, 1996; Neely et al., 2002; Poister, 2003; Spitzer, 2007).

The problem however, still remains that very few users of this flurry of data truly understand the antecedents of excellence; the structures and conditions that precede, anticipate, or predict excellence in performance (White, 2005). Debate has raged about measurement of such complex phenomena as organizational strategy. Above measurement of strategic initiatives and interventions that organizational leaders

commonly use to improve organizational excellence, the question is about how organizational leaders measure such highly complex constructs as organizational strategy. Buzachero et al, (2013) categorize the work of strategic improvement into the buckets of programs, projects, systems, initiatives, policies, procedures, events, meetings, processes, people and capabilities, and tools and affirm that the terms can be used interchangeably when it comes to how these efforts can be measured or evaluated to determine their contribution to outcomes.

Regardless of the terms used, it is generally understood that each of these constructs represents complex phenomena, where multiple parts work together to contribute to the results of the system, making it difficult to partition out or isolate the components that lead to desirable or undesirable outcomes. In some cases, measures of improvement tactics may be operational in nature, easier to quantify and report, and therefore easier to track than measures of organizational strategy, (Phillips et al., 2012). However, Hubbard (2010) reminds organizational leaders that while certain constructs may seem intangible and not easily measured, any construct, organizational efforts included, can indeed be measured through specifically designed instrumentation.

To develop and use an instrument to measure the "intangible" phenomenon, Hubbard (2010) recommends the following steps: firstly, decompose the uncertain construct until certain observable behaviors are identified; secondly, classify each of the observable things into a comprehensible framework that can be understood by intended stakeholders; thirdly, test and calibrate the instrument to decrease error, ensure consistency in its use, and affirm the validity of the causal model; and lastly, use sampling and other efficient efforts to collect the appropriate amount of information needed to make critical decisions.

By employing these critical steps, the academic or practitioner can be equipped to assign value to a complex phenomenon and therefore measure its critical components. On the other hand, (McKenna et al., 2011; Thorpe & Beasley, 2004) argue that performance management research is too limited to positivist frames that investigate on a particular tool or approach and perhaps vindicates the findings by Biron, et al, (2011) that "…strategically and tactically focused goals, senior management involvement, and robust organizational communication were conditions that appear to support performance management efforts".

2.4 Performance Contracting and Other Public Sector Performance Measurement and Improvement Systems

Many business enterprises and the public sector have adopted various systems in attempts to organize and improve performance. These include the traditional (incremental) budgeting, performance budgeting, zero-based budgeting and management by objectives (MBO). While these systems may have varying degrees of impact on performance, they are distinct from the PC but can significantly complement the processes of performance management, measurement and improvement.

Among these, only zero-based budgeting would be a formidable complement to the system of PC, to the extent of enabling efficient allocation of resources, discarding inefficient, obsolete operations, avoiding wasteful expenditure and compelling managers to consider alternative methods of achieving objectives. The MBO is perhaps the system that comes closest to the PC because of its emphasis on greater efficiency through systematic procedures, greater employee motivation and commitment through participation in the planning process, and planning for results instead of planning just for work.

2.4.1 Public Service Delivery

A research study commissioned by the Committee for Public Management Research to serve the needs of the future development of the Irish public service and published in 1998 by the Institute of Public Administration defined public services as those services which are mainly, or completely, funded by taxation. Because of this fundamental premise, public services differ from commercial private-sector services in a number of ways which in turn, have important implications for the development of public service delivery systems. The differences are brought about by the distinctive objectives and constraints of the public sector (Murray, 1990).

Public services for one do not normally operate for financial profit or require immediate payment for goods or services prior to delivery. In addition, public services are in many cases not charged directly and in cases where they are charged for, they are not usually sold to customers at commercial prices set to produce profits (see Flynn, 1990). As Flynn (1990) observed, certain of the public services' established activities may be contracted out operationally, in some countries, to private firms but the delivery of such services continue to be funded from taxation and remain governed by public service criteria. Where private sector companies are contracted to public bodies for the provision of services, charges may be subsidized for social policy reasons.

In addition to their primarily noncommercial character, public services are often distinguished by an absolute, or at least comparative, lack of competition in the normal market sense of seeking to entice customers away from their competitors or rival service providers. As a result, many of the basic features of the commercial marketplace are

absent from the delivery of public services. Moreover, given the regulatory role often performed by public services such as tax collection, law enforcement and provision of security, not only are public services invariably monopolistic or oligopolistic in character, but they can also be mandatory. There are in addition, different guiding principles for the public service that pervade decision making, management and provision. These principles are mainly equitable treatment and the allocation of resources according to need, which are often prerequisites to quality, efficiency and cost effectiveness considerations. Efficiency and cost effectiveness are nonetheless key elements, but unlike their counterparts in the private sector, public service customers rarely have the choice of an alternative competitive supplier.

Public and private bodies also differ significantly in their service relationships with external customers (O'Shea, 1992). Within the market oriented private sector, the relationship between service provider and customer is normally direct and comparatively straightforward. If the service on offer to the customer meets an actual or perceived need, at a competitive price, it will normally be demanded and sold. In such conditions, customer satisfaction should find expression through the level of sales as supply seeks to meet that demand. The comparative freedom of consumers to choose between competing service providers, to select on the basis of price and/or quality, as well as to express satisfaction or dissatisfaction with the service provided, means that customer needs are paramount in services provided by the private sector. With regard to the provision of public services, the provider customer relationship is often more complex and indirect. Payment is not normally made directly for the service received and so customer control is weakened.

Customer choice is very limited when provision is monopolistic. From the providers' viewpoint, ability to pay is often not a key determinant of demand and accordingly the typical market disciplines of price control seen in private enterprise frequently do not apply. Indeed, the providers' ability to supply is likely to be determined by budgetary funding outside its direct control. The OECD (1996) observes that clients cannot have a final say on the level and type of service, unless they are paying the full cost. In other words, the client's views and interests are not the only ones to be considered, as the client represents only one of several stakeholders. There is a balance to be struck between the views of clients and the views of the service provider and/or the government, on behalf of more general interest groups such as taxpayers.

Funding which comes directly or indirectly from the state is often fixed by annual allocation, through the Exchequer budgetary arrangements. Consequently, within the public service, mismatches in demand and supply can find expression in longer waiting lists or the rationing of services. The relationship between demand and provision in the public services can also be perverse in private sector terms. As Pollitt and Bouckaert (1995) point out, a fall in demand for a public service can actually be a relief because it means less pressure, more time for professional development, research or leisure, little or no reduction on budget. An increase in demand, by contrast, may be very unwelcome, because it means more pressure on staff and facilities but probably no increase in the budget. It is only in recent years that changes in budgeting practices have begun to lessen these 'perverse incentives' by relating budgets to workload or performance.

Given such a perverse service provider relationship, monopolistic public bodies can be vulnerable to the development of a vicious circle of low standards in the demand for, and supply of, their services. The phenomenon of excess demand which leads to queues and rationing decreases the motivation to improve quality in other ways too. If one customer dislikes the service and goes elsewhere (if they can) there is usually another one waiting in the queue. Large scale desertion may be unlikely because the public provider occupies a monopolistic or oligopolistic position and there are invariably few if any alternatives to turn to. This restriction on behavior is, of course, likely to be felt most acutely by low-income consumers. Trapped in a monopolistic system, which provides them with essentials such as health care or education or social security benefits, such customers often form very low expectations for service quality. They get used to low standards as do the service providers (Pollitt & Bouckaert, 1995).

The primary attribute of public service delivery is quality of the service. According to Murray (1990) service quality is defined by such factors as courtesy, consideration, information and speed. OECD (1987) stressed the following types of characteristic with regard to service quality: timeliness; volume/amount; accessibility/convenience; availability; accuracy; safety; appropriateness or suitability; as well as such qualitative aspects as pleasantness and simplicity. Equality and legality are acknowledged as priority issues in service delivery, together with the cost of the service referred to and its efficacy.

Service quality initiatives reflect a general acceptance of the importance of responsive and efficient government to economic and social progress, within a general context of budgetary constraints. They are also consistent with an ongoing role for the public sector and with defending and instilling confidence in the public sector (OECD, 1996: 20).

Based on its international experiences up to that time, the OECD (1987) suggested that the key components of responsive service delivery were: transparency; participation; satisfying user requirements; and accessibility. In revisiting these key elements nine years later, the OECD (1996) stresses their continuing validity but restates them as; clients participate in or are consulted about decisions on what level and type of service is to be provided, they are informed as to what level and type of services are to be provided and they can reasonably expect to receive this level of service, they have rights of complaint and redress if the appropriate level of service is not provided; and service delivery agencies are required to set service quality targets and to report their performance against them and openness and accountability on behalf of the service providers.

A key attribute of public service delivery is user involvement. The OECD (1996) identifies five points on the potential spectrum of user involvement with service delivery: information; consultation; partnership; delegation; and control. The Canadian public service gives a checklist against which public servants can determine progress in quality development. These are that quality organizations must ask their clients to identify their needs and expectations; continuously meet the needs of their clients while managing their expectations; support active employee involvement in meeting these needs; foster employee innovation to improve processes continuously; cultivate a 'people first' environment where teamwork is valued; accept the risk associated with innovation; support a continuous learning environment; and provide visible leadership for employees, which is crucial to the success of any quality services initiative.

In addition, the National Quality Institute highlights the following characteristics as typical of quality service organizations in both the public and private sectors: everyone understands where the organization is heading and understands his or her part in the process; there is respect for people in the organization and all employees are encouraged to develop their potential; the primary focus is on serving clients; cooperation and teamwork are a way of life; leaders are fully involved in the quality service programs and initiatives; everyone concentrates on achieving quality; there is a focus on continuous improvement; employees appreciate and understand stakeholders' expectations and know how to satisfy them; and the organization is driven by quality and innovation (Treasury Board of Canada, 1995).

In administering the movement from unresponsive public service bureaucracies to the adoption of a clear user focus in the delivery of public services, governments have embraced a variety of approaches, often involving the adoption of explicit statements of standards in the form of service delivery charters. The concept of the charter is fairly universal. For example, the EU, through its *Citizens First initia*tive (1996 onwards), committed itself to providing accessible information on EU citizens' rights to work, live and study in another member state. This initiative was later extended to embrace gender equality, consumer protection, travelling within the EU, as well as buying goods and services in other member states. Information was also provided on what citizens would do in the event of infringement of these rights.

In Portugal, the Public Service Quality Charter (1992) was a deliberate attempt by government to generate confidence in a system of public administration which enjoyed little public support (CorteReal, 1996). In France, the Public Service Charter (1992)

draws together diverse initiatives to improve the quality of services provided by public bodies over the preceding decade (Trosa, 1995; Pochard, 1996). It incorporated a number of the important characteristics identified by the OECD (1996) namely improved transparency and simplicity in service provision; greater integration in point of delivery; better arrangements for reception of the public; arrangements for handling complaints and redress; as well as less centralization of services. In taking forward its Declaration of Quality Services Principles (1994), the Canadian federal government acknowledged not only its own corporate budgetary and other needs, as well as the needs of its customers, but also that all employees contribute to the management and quality of their own outputs and, thus, to the success of the organization. In the USA, President Clinton, in 1995, directed every executive department and federal agency to publish customer service standards in a form readily available to customers. These standards cover all operations that deliver significant services directly to the public, including those delivered in partnership with state and local governments. Achievement against these standards is monitored and results published annually. Public bodies are encouraged to survey their employees for ideas to improve customer service and to take measures to recognize employees for meeting or exceeding service standards. In addition, agencies are required to take action across agency lines of responsibility to serve shared customer groups more effectively.

The Australian government strongly advocated the widespread adoption of government service charters in order to help shift public bodies from an internal to an external focus and to open them up more effectively to customers. This initiative was intended to cover all government departments, agencies and enterprises providing services to the public,

with over 115 charters scheduled for completion by mid-1998 (Developing Service Charters, 1997). Perhaps the best known, longest running and most frequently cited of these initiatives is the Citizen's Charter (1991) adopted in the UK. It is the acknowledged precursor of many of the initiatives taken in other countries.

The citizen's service delivery charter had its debut in Kenya in 2006. Its take off was slow as has been the case in many countries, owing mainly to resistance and skepticism on the part of public servants. In regard to such skepticism, Bynoe (1996) concludes that: "Many dismiss the Citizen's Charter as a poor attempt at public relations. Yet as a policy vehicle it touches subjects of widespread public concern, which politicians ignore at their peril. Ways must be found to render public services more responsive to those who use them. Poor quality services need to be improved and waste eliminated. In its fashion, the Charter program has attempted such tasks. It has highlighted the need to improve the standards of public service management and accountability. It attempts to transform the culture of the public service into one which acknowledges the vital importance of user perceptions of service standards and delivery. Any Government whose strategy is to guarantee robust, popular and effective public services must pursue these broad objectives.

There are of course, alternative service delivery approaches to the charter. One approach that has been both an alternative and complementary to the charter is the one-stop-shop. One stop shops, or citizen's service centers are another service improvement tool, different from the various charters. One of their specific purposes may be to provide clients with particular information adapted to the different situations experienced by

them. One stop shops are being tested and promoted mostly at a local level in the United Kingdom, the Netherlands, the Nordic countries and Italy. Experiences in OECD Member countries suggest that a single point of contact for information improves efficiency with simple referral tasks (Amberg, 1996). In Kenya, the one stop shop is a public service delivery approach, referred to as Huduma Center, that enables citizens and customers to access the most commonly demanded services under one roof through integrated electronic service platforms. The program aims at transforming public services to be people-centered, professional, efficient, transparent and accountable. The one stop shop platforms place emphasis on uniform and high customer service standards across all government services provided under the program.

The Huduma Kenya programme is one of Kenya Vision 2030 flagship projects that integrate the delivery of all transactional and citizen facing public services through one stop shop platforms. The program has five "one stop shop" service delivery channels including physical facilities where several transactional public services by different MDAs are provided; an online portal that enables customers to transact public services electronically; mobile phone platform that offers m-government services to citizens from the convenience of their mobile phones; a toll free contact center established to provide services using a single dialling prefix that citizens use to enquire about services offered by different Government Agencies; and an integrated multi-channel payment gateway that simplifies payment for government services through various platforms including the Huduma Smart Service and Payment card. There are currently 32 Huduma Centers each offering over 44 different Public Services.

What is clear is that improvement in the quality of public service delivery requires deliberate engagement of the user. The need to engage with the users of public services holds true whether the strategy for reform is market driven or more oriented towards empowerment. For whatever reason, by engaging with its external customers, public bodies are seeking to improve the efficiency, effectiveness, and hopefully, the equity of the services they deliver.

Steele and Seargeant (1997) identify three main types of reasons for public service bodies to engage with the public. These are *specific* reasons which fall into four main groups: the exploration of needs; the development of policies, plans and strategies; the setting of priorities for services; and the assessment of service performance; *Contextual* reasons which relate particularly to culture and attitudes and often derive from a belief in the value of consultation or the desire to empower users; and *instrumental* reasons which may not be explicit but serve to undermine the success of consultation. Such reasons would include 'going through the motions' by complying with requirements to consult or using consultation to defer difficult decisions.

2.4.2 The Public Service in Kenya

The Kenyan public service has evolved dramatically since independence in 1963, when its staff establishment comprised 63,000 employees. According to a report prepared for the Public Sector Reform and Development Secretariat (Office of the President) by a Donor/Government of Kenya Consultative meeting in 2005, the establishment in 1963 was overstretched leading to poor performance and low productivity. The civil service was further constrained by scarcity of management and entrepreneurial skills, especially among the indigenous people. This figure however grew rapidly in subsequent years, rising to 158,883 in 1980, and 271,979 in 1990.

A report published in December 2013 attributed to the Public Service Commission of Kenya, put the current public service establishment, comprising the central government, Teachers Service Commission, state corporations and local authorities at 655,300. Until 2013, the public service was made up of 487 public agencies in the executive arm of the government, comprising 46 ministries and accounting departments, 202 state corporations, 175 local authorities and 64 tertiary institutions. Out of these, 470 were on PC. This picture has changed radically with implementation of the constitution, which was promulgated in August 2010. The ministries were scaled down to 18 from 46 and there have been extensive on-going reforms aimed at merging and reducing the number of state corporations. More significantly, local authorities no longer exist, their place having been subsumed by county governments.

Performance contracting was introduced in the public service in 2004, in a pilot group of 16 largely commercial public enterprises, growing to 476 MDAs in 2012, comprising ministries, state corporations, local authorities and tertiary institutions. As a key requirement under the performance contracting system, all service oriented MDAs were required to develop and implement citizens' service delivery charters, and to carry out independent annual customer satisfaction surveys.

2.4.3 Customer Satisfaction

Boulding et al. (1993), Johnson and Furnell (1991) and Furnell et al. (1996) view customer satisfaction as an overall evaluation of a firm's product or service, rather than a particular individual's evaluation of a specific transaction. Overall customer satisfaction should be a more fundamental indicator of the firm's performance, due to its links to behavioral and economic consequences beneficial to the firm (Anderson et al., 1994). In operations research and production, it is common practice to argue that there is a positive

relationship between customer satisfaction and productivity. Thus, the firm that achieves superior levels of customer satisfaction needs to devote fewer resources to handling returns, rework, warranties and complaints management, thus lowering costs and improving productivity (Crosby, 1979; Deming, 1982; Juran,1988). In the context of the service industry, Reichheld & Sasser (1990) argued that reducing defects leads to greater customer loyalty; increased customer loyalty in turn, leads to greater productivity via lower costs of making future transactions, favorable word of mouth, and in many cases, a price premium.

There is however, an equally compelling logic to suggest that the pursuit of customer satisfaction increases costs and thereby reduces productivity. In economics for example, the relationship between productivity and customer satisfaction is viewed as positive. Customer satisfaction or 'utility' is modeled as a function of product or service attributes. Improving the level of utility by for example, improving raw materials, incorporating additional features or adding service personnel, requires increasing the level of product attributes and therefore, costs (Grilicher, 1971; Lancaster, 1979). Such efforts of progressive increase in utility (customer satisfaction) ultimately also result in diminishing returns.

As mentioned earlier, performance measurement is a key component of PMSs. Countries the world over have, therefore, conceived and applied measurement and evaluation within the context of PMSs. A common characteristic within these reforms is PMSs/Results Based Management (RBM), aimed at improving service delivery through results-oriented performance management frameworks and creating a culture of focusing on results rather than processes. The key is in the delivery of measurable outputs and providing a framework for using a strategic approach to planning and resource allocation,

measuring outputs, accountability, monitoring and evaluation of performance. The key elements in these systems are the determination of expected outputs, identification of performance indicators and setting of targets, monitoring and evaluation as well as rewarding/sanctioning of performance.

2.5 Examples of Countries Implementing PMMIS

Ever since the setting up of public enterprises, governments all over the world have been groping to find ways of managing them effectively. This effort has spawned over a large number of varied instrumentalities (Trivedi, 1990). The little that is available in analytical literature regarding measurement and evaluation of performance in the public sector traces measurement to the efforts of various countries in designing techniques to rationalize government control of public enterprises, in order to improve their performance.

The earliest organized effort began with the development of PCs in their diverse forms, mainly in France, as seen earlier in this study. This was commonly referred to as the French contract system and was the product of the Nora Committee Report of 1967, which had been appointed to inquire into the functioning of the French public enterprises with a view to suggesting measures for improvement of their performance. The appointment of the committee was informed by the need to resolve the confusion resulting from excessive control of public enterprises by government and the complacency and apathy on the part of the different parties involved, towards their efficient functioning.

The report envisaged a system that would impart operational autonomy to management of public enterprises, and a realistic pricing policy, in the context of well-defined contracts, which would list out the objectives to be fulfilled by public enterprises and the financial assistance to be expected from the government. Further, countries such as Japan, the United Kingdom, the United States of America, all have well developed systems of measuring and reporting government results: in Japan the Government Policy Evaluation Act (GPEA), has been active since 2002; in the UK, the Public Service Agreements (PSA) system has been operational since 1998 while the Government Performance and Results Act in the US was promulgated in 1993 and became fully operational in 1997 (Talbot, 2006). While most countries are still coping with the consequences of the 2008 global crisis, the demand for public goods/services post the crisis has only increased even as the fiscal resources have dwindled. The mechanism, featuring performance management, measurement and improvement, has been used effectively in a number of countries.

2.5.1 Indian Experience

The Memorandum of Understanding (MOU) was the Indian version of the signaling contract system, which derived performance criteria and targets from long-term institutional plans and was applied selectively to the large and most important public enterprises. The system was primarily intended to increase autonomy of the managers of public enterprises, along with accountability. The MOUs are one year performance agreements which require explicit statement of public enterprise priorities by attaching weights, and specifying how to evaluate deviations from agreed targets. Evaluation under the MOU focuses on both quantitative and qualitative aspects. They, in addition, provide

for an integrated performance measure referred to as the 'composite score' and recognize the need for rewards based on actual performance. The MOU was introduced in 1987 to assist in improving the performance of public enterprises. In 2009, the Results Framework Document (RFD) was introduced as the MOU counterpart for managing performance in government departments. Conceived under the Indian government maxim of "minimum government and maximum governance", the RFD was based on the principle of 'what gets measured gets done'. Preparation of the RFD by each ministry/department detailing priorities set out by the concerned department/ministry was the starting point of Performance Measurement and Evaluation System. The system evaluates the performance of these ministries and departments based on the quantitative targets set at the beginning of each financial year. An important feature of the system is the priority it has accorded to inter-ministerial linkages. If the performance of a particular department/ministry is affected by under/better performance of a linked department/ministry, the linked department/ministry is also penalized/rewarded.

According to the Second Administrative Reform Commission of India, the performance agreement has been the most common accountability mechanism adopted by countries to improve quality, transparency, and effectiveness of their public governance. At the core the performance agreements are the objectives to be achieved, the resources provided to achieve them, the accountability and control measures, and the autonomy and flexibilities that the civil servants will be given".

2.5.2 South Korean Experience

South Korea is one of the few countries in the world with a system, incepted in 1983, for evaluating the performance of its public enterprises, referred to as Government Invested Enterprises (GIEs) (Trivedi, 1990). In efforts to improve the performance of GIEs, the

government of South Korea promulgated the Government-Invested Enterprise Management Act (GIEMA) in December 1963 with the objective of facilitating evaluation of the performance of GIEs, increasing managerial autonomy and accountability and engendering effective controls. These were to be achieved through the management by objectives system of budget preparation, greater management control over procurement, budgeting and personnel policy, a two-tier management organization, with the Board of Directors as the main decision-making organ and the enterprise President as Chief Executive responsible for implementation, the simplification and unification of outside audits, the elimination of business supervision by technical ministries, and an objective-oriented, ex-post evaluation system and related incentive system.

South Korea's performance evaluation system is essentially an operations planning and control system. It involves specifying performance criteria for each public enterprise, setting criteria values, defining gradations of performance around those criterion values, allocating weights to various criteria, evaluating actual performance at the end of the year and finally, paying an incentive bonus based on results. The system has been highly successful.

2.5.3 Public Service Agreements in the United Kingdom

The Public Service Agreements (PSA) system was introduced in the United Kingdom in 1998. It lists a set of performance targets, set by the treasury, against which each government agency (only ministries in the UK case) must report. The targets were initially set for three years but have since been revised every two years. The revision was extended for three years and a new set of targets set in 2007. The PSAs outline the

objectives for the agency or department regarding the services to be delivered as agreed between the department and the prime minister's delivery unit. PSAs set out targets for achieving the strategic objectives for a medium term frame of three years.

2.5.4 Government Performance Results Act (GPRA) in the United States of America

Government performance management in the USA is grounded in law, the Government Performance Results Act (GPRA). The GPRA was signed into law in 1993, but became operational in 1997. The GPRA established statutory requirements for federal government agencies to set goals, measure performance and submit related plans and reports to the congress. This law requires government agencies to produce performance plans and reports for the annual appropriations cycle, with the guidance of both the presidency and the congress. Further, under this law, the US President is obliged to sign a performance agreement with cabinet members. In 2010, the GPRA was modified substantially, and the modifications became law in January 2011 as the GPRA Modernization Act of 2010 (GPRAMA). The GPRAMA set out to build on the GPRA by, among others, establishing processes to intensify focus on goal setting and performance measurement on cross-cutting policy areas; using goals and measures during policy implementation; and assigning individual responsibility for the achievement of goals and management tasks.

The US government has since, built considerably on these developments by directing federal agency leaders to set specific agency goals reflecting administration priorities. Cabinet departments and large federal agencies are required to identify a few high performance (priority) goals, whose achievement is overseen by the Performance

Improvement Council working closely with the White House Office of Management and Budget (OMB). The OMB uses the goals the agencies set in their strategic plans along with the short term priority goals, to align budget resources with priorities.

According to the OMB, the power of this type of goal focused performance management system is that it uses performance measures to create a constructive dynamic that motivates continual improvement, not just compliance. Implementation of performance agreements policy in the United States had the highest-level political support. Each performance agreement was signed by the president and the cabinet secretary responsible for respective department. The structure of these documents contained an introduction, major objectives of the department, measurement of performance, administrative support and terms of agreement.

2.5.5 Performance Contracting in Kenya

The PC in Kenya is a performance agreement between the government and the management of a public agency, specifying targets to be achieved, in addition to requirements to develop charters to communicate and operationalize expected service standards, and incentives for achieving the targets. The introduction of PCs in the management of the public service was conceived in a 5-year national strategic plan, the Economic Recovery Strategy for Wealth and Employment Creation (2003 – 2007), commonly referred to as the ERS, as part of wider public sector reforms. The ERS recommended sweeping reforms in the management of the public service observing, at the outset, that the public sector "…is excessively large thereby absorbing inordinately large amounts of national resources.

The sector is characterised by wastefulness and inefficiency". The ERS recognised further that,"…the problems attributed to the many state corporations arise from the lack of clear performance contracts that facilitate the monitoring of the performance of the CEOs appointed to manage the corporations." The Kenyan version of the PC incorporated an elaborate measurement methodology that denominates achievement into weighted and composite scores. Under the measurement and evaluation system, achievement of the 'freely negotiated' performance targets was classified as 'excellent', for achievement of 30 percent above the agreed performance target; 'very good', for achievement between 100 percent and 130 percent of the performance target in the signed PC; 'good', for achievement between 70 percent and 100 percent of performance target in the signed PC); 'fair', for achievement between 50 percent and 70 percent of the target in the signed PC); and 'poor' for achievement between 0 percent and 50 percent of the target in the signed PC. The scoring scales are in turn, denominated into raw and composite scores with the criteria value ranges indicated in Table 2.4 below:

Table 2.4: Performance Grading Scores

Performance Grade	Criteria Value Range Upper	Lower	Range Span
Excellent	From 1.00	To 2.40	1.40
Very Good	Over 2.40	To 3.00	0.60
Good	Over 3.00	To 3.60	0.60
Fair	Over 3.60	To 4.00	0.40
Poor	Over 4.00	To 5.00	1.00

(Source: Performance contracting training modules, Office of the Prime Minister, Government of Kenya)

The methodology for calculating the raw score of any achievement is more like measuring the distance which performance has "traveled" inside the entire span of 1 to 5. Calculation of the raw score is based on the actual achievement (X_a) as it relates to the target (T), where,

X_a = Actual achievement

X_u = 2T = Upper criteria value

X_L = 0 = Lower Criteria Value

Span = 4. (5.00 -1.00)

$$Raw\ score = Upper\ criteria\ value\ limit + span\ X_u - \left\{\frac{X_a}{X_u + X_L}\right\}$$

The raw scores obtained using this methodology are subsequently aggregated to generate the composite score.

The criteria for performance excellence (Baldrige Performance Excellence Program, 2013a:12) challenges organizations to collect, report, and use performance measures in the areas of products, customers, operations, finances and the marketplace, and the workplace as a key means to make fact-based decisions, leading to excellence at all levels of the organization. Migeon (2012) observes that results-oriented governments are increasingly making use of hard data and statistical analysis to inform decisions and proceeds to document two forms of evidence-based decision making in government; one of the goals of a government-wide transformation effort in France between 2009 and 2012 was to reduce the perceived complexity of dealing with the government. As part of this initiative, the government identified 50 life events such as getting married or starting a business during which citizens have to interact with public agencies. It then sought to simplify each of these interactions, all the while measuring citizen satisfaction to track whether the changes were actually working. Similarly, as part of a broader open government initiative, the city of Moscow began to publish a dashboard of around 50 key

performance indicators relating to the city's health, education, safety, business conditions, and transportation outcomes. The dashboard acted as a scorecard for citizens, showing the city's performance against these metrics.

The UK government's behavioral insights team was formed explicitly to use data about citizen behavior to improve the effectiveness of government interventions. The team sets up randomized control trials, long used in the medical field but only now gaining favor in the public sector to test the impact of small changes, like adjustments in the language and tone of the letter that the tax department sends to delinquent taxpayers. In its first two years, the team paid for itself 22 times over in savings. It has identified interventions expected to save the UK government at least£300 million over the next five years. The unit has since started to advise other governments on how to use data and randomized control trials to improve government performance.

2.6 Previous Related Studies

Four studies related to the current research study, carried out in 1994, 2006, 2010 and 2012, were identified. The studies set out to, respectively investigate whether there are conditions under which there are tradeoffs between customer satisfaction and firm productivity, examine the relationship between performance management and service delivery in the department of water affairs and forestry in S. Africa, explore the antecedents of satisfaction and loyalty for the freight shipping industry in Taiwan, investigate the linkages between customer service, customer satisfaction, and firm performance in the U.S. airline industry.

The objectives of the studies were to respectively, establish the links between customer satisfaction and productivity; establish the role of performance management as a pre-condition for organizational performance and improved public service delivery; establish the effects of service quality and relational performance on customer satisfaction and loyalty in a business-to-business context; and investigate the linkages between customer service, customer satisfaction, and firm performance in the U.S. airline industry.

The findings of the studies were that; the association between changes in customer satisfaction and changes in productivity was positive for goods, but negative for services. While both customer satisfaction and productivity were positively associated with Return on Investment (ROI) for goods and services, the interaction between the two was positive for goods but significantly less so for services; this meant that simultaneous attempts to increase both customer satisfaction and productivity were likely to be more challenging in service oriented operations. This implied further, that services exhibit "tradeoffs" while goods do not, given that the increases (decreases) in customer satisfaction were associated with decreases (increases) in productivity for services, the conclusion drawn by the researcher was that the introduction of performance management in DWAF had not brought about the desired impact on service delivery.

Analytical results showed that customer loyalty was influenced by the level of satisfaction. Additionally, relational performance and service quality were significant predictors of satisfaction; relational performance was an antecedent of service quality and satisfaction, and its influence on satisfaction was greater than that of service quality and that market concentration moderated the relationship between satisfaction and

profitability for U.S. airlines. Airlines that operated in concentrated markets had fewer incentives to satisfy their customers than airlines that operated in more competitive markets.

Details of the studies, including the researchers, the methodologies and the gaps intended to be filled are shown in Appendix XI.

2.7 Conceptual Framework

The principal aim of the research study on performance contracting, measurement and public service delivery in Kenya was to explore the relationship between performance measurement and improvement, which are the core essential elements of performance contracting, and public service delivery in Kenya, including the factors that affect and influence the relationship. The roadmap of this study entailed review of literature, documentation and use of secondary data from key public sector agencies that have long records with performance measurement. The study therefore sought to bridge a number of gaps between theory and practice in performance measurement, in the Kenyan context. The effects of political stability as a key factor in governance, and global competitiveness, and how, and the extent to which, they influence performance and ultimately service delivery, were considered and analyzed in the study.

Alesina, Ozler, Roubini and Swagel (1992) defined political stability as the propensity of a government collapse either because of conflicts or rampant competition between various political parties. They proceeded to state that political stability is beneficial for much of the economic progress that a country may achieve because investment and growth highly depend on it, recovery is faster under a stable political environment, and

issues of employment, human capital development and business development can be dealt with much faster and effectively in an environment that does not suffer from risks of change, or even worse, risk of conflict, because of political instability.

A report by the Centre for Public Policy Studies cites an IMF Working Paper of 2011, associated progressive decline in per capita GDP, declining rates of productivity and growth and physical and human capital accumulation to rising political instability. Further that, political instability usually leads to sub-optimal macroeconomic policies and a frequent switch between policies, creating volatility and thus high levels of uncertainty. This position is supported by the findings by Alesina, Ozler, Roubini and Swagel (1992) that in countries where there are high levels of political instability, the economic growth is reported at very low levels and that, the two phenomena are in fact, interconnected and affect each other.

High volatility in the government establishment may lead to lower growth, but also a poor indicator of growth may lead to higher political instability. Uncertainty in the government's stability and therefore the continuation of current or similar policies may affect investment. At the same time, low investment levels and low economic growth may see higher political instability, as the electorate loses faith in a standing government and might opt to elect some other party with the hope that economic growth will benefit from a change in government.

The report by the Centre for Public Policy Studies concludes that if a country has a stable government and thus does not need to worry about conflicts and radical changes of regimes, the people can concentrate on achieving more in their lives, in terms of career,

or otherwise. Political stability gives a peaceful, stable environment that is necessary for any progress in other areas of life –science, economic, developmental and philanthropic progress, and in general, sees more progress than a period that a country is under an unstable political situation, for the simple reason that in a stable, peaceful environment, people have the time and luxury of being able to deal with issues other than basic survival needs.

The variables conventionally associated with political stability include economic and democratic freedom, the predictability of the electoral environment (political certainty), ideological homogeneity of political parties and establishments, ethnic homogeneity and general absence of violence and terrorism. This variable relates essentially to the quality of governance. The political stability indices used in this study were extracted from the World Bank Report on Worldwide Governance Indicators on Political Stability and Absence of Violence/Terrorism. The indices reflect perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically motivated violence or terrorism.

The Worldwide Governance Indicators (WGI) is a research dataset summarizing the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrialized and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, international organizations, and private sector firms. The estimates of governance range from approximately -2.5 (weak) to 2.5 (strong) governance performance. The Worldwide Governance Indicators which inform political stability,

have been compiled for 215 developed and developing countries covering the years 1996 through to 2012. The indices that relate to this study are in respect of the years 2006 to 2011 in respect to political stability in Kenya and are shown in Table 2.5, in comparison to the best and worst countries:

Table 2.5: Political Stability Country Comparisons

Year	Political Stability (WGI)		
	Finland (best)	Kenya	Somalia (worst)
2006	1.50	-1.12	-2.78
2007	1.50	-1.27	-3.24
2008	1.45	-1.38	-3.31
2009	1.45	-1.43	-3.32
2010	1.39	-1.17	-3.11
2011	1.37	-1.24	-3.07

Source: World Bank Report. Political Stability and Absence of Violence Worldwide Governance Indicators (WGI)

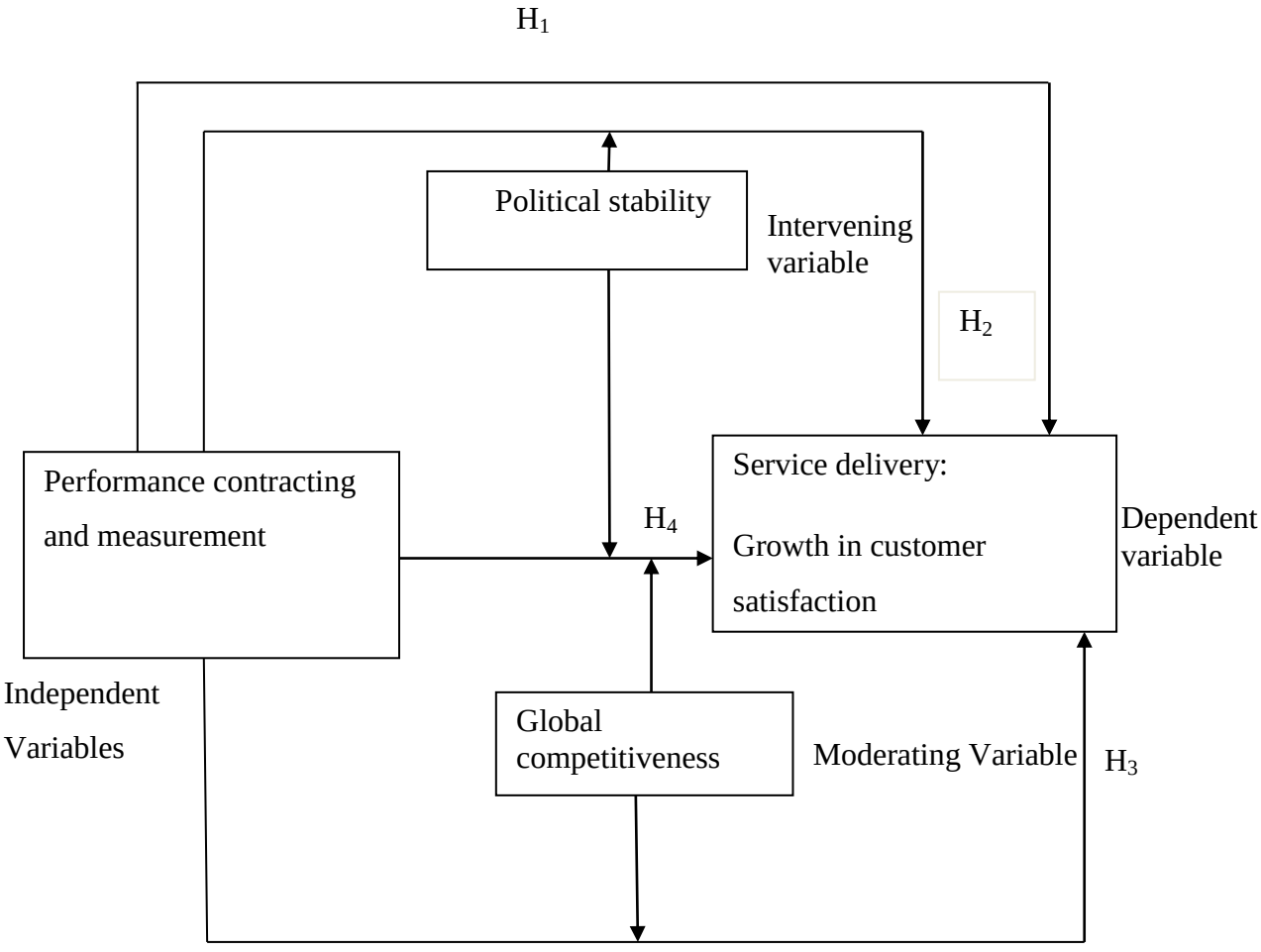
Data on global competitiveness is compiled by the World Economic Forum (WEF) of the World Bank. The World Economic Forum in its Global Competitiveness Report, defines competitiveness in the context of a grouping of factors that drive productivity and competitiveness. These include institutions, infrastructure, the macro economy, health and primary education, higher education and training, market efficiency, technological readiness, business sophistication and innovation. The level of productivity, in turn, sets the level of prosperity that can be reached by an economy.

The productivity level also determines the rates of return obtained by investments in an economy, which in turn are the fundamental drivers of its growth rates. In other words, a more competitive economy is one that is likely to grow faster over time. The concept of competitiveness thus involves static and dynamic components. Although the productivity

of a country determines its ability to sustain a high level of income, it is also one of the central determinants of its return on investment, which is one of the key factors explaining an economy's growth potential. The index organizes the pillars into three sub-indexes: efficiency enhancers, innovation and sophistication factors and is based on a 1-7 scale (the higher the average score, the higher the degree of competitiveness).

The Global Competitiveness Indices for Kenya for the years 2006/07, 2007/08, 2008/09, 2009/10 and 2010/11 were, respectively, 3.57, 3.61, 3.84, 3.67 and 3.65. The relationships that formed the basis of the study are shown in the conceptual framework depicted in Figure 2.3.

Figure 2.3: Conceptual Framework



2.8 Hypotheses

The study sought to establish the relationship between performance contracting and measurement and public service delivery in Kenya, as well as the intervening and moderating effects of, respectively, political stability and global competitiveness, on this relationship. From the literature review and on the basis of the relationships depicted in the conceptual framework above, the following hypotheses were formulated for testing:

H_1 There is no significant relationship between performance contracting and measurement, and public service delivery in Kenya;

H_2 There is no significant intervening effect of political stability on the relationship between performance contracting and measurement, and public service delivery in Kenya;

H_3 There is no significant moderating effect of global competitiveness on the relationship between performance contracting and measurement, and public service delivery in Kenya;

H_4 There is no significant joint effect of political stability and global competitiveness, on the relationship between performance contracting and measurement, and public service delivery in Kenya.

2.9 Chapter Summary

The chapter has summarized both theories anchoring this study and empirical literature. The chapter has the discussed and synthesized the theoretical underpinnings and pairwise reviews of the study variables. It has clearly highlighted the various contributions by the underpinning theories. A summary of selected empirical studies is presented and clearly highlight their focus of study, findings and conclusions. The important aspects of this chapter are propositions emerging from the theoretical and empirical gaps. It also presents a conceptual model in a diagrammatic relationship with variables of the study with resultant hypotheses.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the steps the study employed to create a relationship between the research objectives and the research questions and therefore demonstrates and guides on how the research was conducted. It includes the research design, the research philosophy, the target population of the study and how the data was collected, the analysis procedures and techniques, and concludes with a summary of the key indicators used to measure the study variables, and the analytical model.

3.2 Research Philosophy

The study was based on quantitative research entailing the collection and observation of existing numerical data on the performance of public agencies and public service delivery in Kenya over a period of six years, and using statistical analysis to draw conclusions regarding the relationship between the variables that were being investigated. The study used secondary data on performance, denominated into composite scores generated through independent performance measurement and evaluation, and customer satisfaction indices obtained through independent annual customer satisfaction surveys. The objectivity of already existing data underpins the objectivity associated with the positivist research philosophy enunciated by Cooper and Schindler (2006).

According to Dash (1993), research is essentially concerned with exploring and understanding social phenomena which are educational in nature, mainly pertaining to formalized and/or spontaneously occurring social, cultural, psychological processes.

Further, that since theoretical questions in education emerge from different conceptions and interpretations of social reality, different paradigms have been evolved to determine the criteria according to which one would select and define problems for inquiry (Dash, 1993).

The positivist approach can be traced to the French philosopher, August Comte, who emphasized observation and reason as a means of understanding human behavior. According to him, true knowledge is based on experience of senses and can be obtained by observation and experiment. Thus, the positivistic paradigm systematizes the knowledge generation process with the help of quantification, which is essentially to enhance precision in the description of parameters and the discernment of the relationship among them. The anti-positivist paradigm on the other hand, emphasizes that social reality should be viewed and interpreted by the individual according to the ideological positions they hold. Therefore, knowledge is personally experienced rather than acquired or imposed from outside. According to Cohen et al. (2000) the anti-positivists emphasize that the verification of a phenomenon is adopted when the level of understanding of a phenomenon is such that the concern is to probe into the various unexplored dimensions of a phenomenon rather than establishing specific relationship among the components, as it happens in the case of positivism.

In brief, the two paradigms are concerned with two concepts of disparate social reality. While positivism stands for objectivity, measurability, predictability, controllability and constructs laws and rules of human behavior, non-positivism essentially emphasizes understanding and interpretation of phenomena and making meaning out of this process,

suggesting qualitative rather than quantitative approach to social inquiry. The current study is premised on measurement of observed phenomena and making predictions based on objective evidence based data and is therefore positivistic in orientation.

3.3 Research Design

Research design is the detailed outline or strategy selected to integrate the different components of the study to effectively address the research problem. It typically includes the methods employed to collect data, and measurement and analysis of the data, and the instruments used to analyze the data. According to DeVaus (2001) and Trochim (2006), it constitutes the blueprint for the collection, measurement, and analysis of data. In social sciences research, obtaining information relevant to the research problem generally entails specifying the type of evidence needed to test a theory, to evaluate a program, or to accurately describe and assess meaning related to an observable phenomenon. The function of a research design is to ensure that the evidence obtained enables logical and unambiguous consideration of the research problem. In social sciences research, obtaining information relevant to the research problem generally entails specifying the type of evidence needed to test a theory, to evaluate a program, or to accurately describe and assess a meaning related to an observable phenomenon.

This study employed a cross-sectional design whereby the data is collected from a large number of public institutions controlled and funded largely by the government, but which results of performance and service delivery differ. The data used for the study was already available for the period of six years and not subject to intervention or manipulation by the researcher. The statistical analysis employed was for the purpose of

drawing inferences about possible relationships but not to establish cause and effect relationships. The research in addition, considered a number of variables, including performance (the product of measurement), customer satisfaction indices, political stability and global competitiveness. The research problem was identified and its selection justified, previous published literature reviewed and synthesized, hypotheses relating to the research questions specified, and the data necessary for adequate testing of the hypotheses described, in addition to explanation of how the data was obtained. The methods of analysis to be applied to the data in determining whether or not the hypotheses are true or false were also described. Unlike in experimental design, where there is an active intervention by the researcher to produce and measure change or to create differences, cross-sectional designs focus on studying and drawing inferences from existing differences between subjects, or phenomena. This type of design may not demonstrate cause and effect but may provide a snapshot of correlations existing at particular points in time, and may give clues to guide further research.

3.4 Population and Data Collection

The new Constitution that was promulgated in August 2010 significantly altered the landscape of the structure and profile of government agencies. Requirements in the Constitution precipitated wide ranging restructuring of the mainstream civil service resulting in the merger of ministerial functions, thereby reducing the number of ministries and accounting departments from 46 to 18, and virtual abolition of local authorities. The data available for the study therefore was in regard only to agencies in the old, pre-constitution structure. The study was a cross-sectional one and relied on secondary data

that was already available. The political stability indices were extracted from the World Bank Report on Worldwide Governance Indicators on Political Stability and Absence of Violence/Terrorism, while the data on global competitiveness was obtained from the 2013 World Economic Forum (WEF) report of the World Bank.

In 2010/11, which was the terminal year for data collection and analysis in this paper, the number of MDAs on performance contract was 470, made up of 46 ministries and accounting departments, 178 state corporations, 175 local authorities and 71 tertiary institutions. The distribution is shown in Table 3.3. The focus of the study was the entire population of 470 MDAs. Further, the various categories of MDAs had, by 2010/11, been on performance contract for differing periods; these are 6 years for both ministries and state corporations, 5 years for local authorities and 4 years for tertiary institutions. The data used for the study was in respect to the five years of 2006/07, 2007/08, 2008/09, 2009/10 and 2010/11, during which period customer satisfaction in the majority of the above categories of public agencies was measured. The distribution of the various categories of institutions is shown in Table 3.1.

Table 3.1: Distribution of MDAs in 2011

Category of MDA	**No.**	**Percent**
Ministries and Accounting Departments	46	9.79
State Corporations	178	37.87
Local Authorities	175	37.23
Tertiary Institutions	71	15.11
Total	470	100.00

Source: Organization of Government; Office of the President.

The performance evaluation methodology in Kenya grades excellence on a composite – scoring scale ranging from 1 to 5 with 1 denoting the upper limit of 'excellent' achievement and 5 representing the lowest limit of poor achievement. Charts and graphs constructed directly on performance gradings drawn from this type of scale would therefore have a visual depiction of declining achievements for top achievers and a rising trend for poor achievers. To mitigate this problem, the composite scores were inverted, in order to give a rising visual effect to positive achievement and a declining visual effect to poor achievement. Further, the composite scores in each of the four categories of MDAs were averaged for each year to contain the data within manageable parameters.

3.5 Data Analysis

The data from the agencies was organized, summarized and collated in a manner that linked with the research questions and subsequently analyzed using both descriptive statistics (mean and measures of dispersion) and inferential statistics (correlation, analysis of variance and regression analysis). Descriptive analysis was conducted to bring out the main characteristics of the sample. To test the hypotheses, correlation and regression analyses were carried out to establish the expected relationships between performance contracting and measurement, and public service delivery in Kenya, and the intervening and moderating effects of, respectively, political stability and global competitiveness, on this relationship. The regression analyses provided estimate equations to predict the magnitude of the dependent variable (customer satisfaction) and provide values for the predictor variables.

In addition, t-test and p-values were used to determine individual significance of the results of the analysis. Assessment of the overall robustness and significance of the regression models was done using the F-test and p-values. Pearson correlation coefficient, R^2, beta coefficients, and p values were computed. If p-value was less or equal to 0.05 (p-value $\leq$ 0.05) the hypothesis was rejected, otherwise it failed to be rejected. Additionally, for each hypothesis, a model equation of the variables relationship was computed showing the magnitude and relationships of the independent variable(s) and dependent variable.

In order to establish the intervening and moderating effects on the relationship between performance contracting and measurement (Independent Variable), X_{1-p} and service delivery (Dependent Variable), Y, in public agencies, the following model was used:

Service Delivery (Y) = $\beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 \ldots + \beta_p X_p + \varepsilon_i$

Where;

Y is the dependent variable (Customer Satisfaction) and is a linear function of X_1, X_2, X_3, $X_4 \ldots X_i$ plus ε_i.

β_0 is the regression constant or intercept

β_{1-p} are the regression coefficients or change induced in Y by each X

ε_i is the error term

X_{1-p} are independent variables (performance contracting and measurement, political stability and global competitiveness).In order to compare the performance of different categories of public agencies, an analysis of variances was carried out. The analytical model is depicted in the Table 3.2 below:

Table 3.2: Summary of Analytical Model

Objective		Hypothesis	Type of Data	Analytical Model
1	To determine the relationship between performance contracting and measurement and public service delivery in Kenya;	**H_1** - There is no significant relationship between performance contracting and measurement, and public service delivery in Kenya;	Secondary	Linear Regression: $Y = \beta_o + \beta_1 X_1 + \varepsilon$, where Y = Customer Satisfaction β_o= Constant β_1= Regression Constant X_1= Performance Improvement
2	To establish the intervening effect of political stability on the relationship between performance contracting and measurement and public service delivery in Kenya	**H_2** - There is no intervening effect of political stability on the relationship between performance contracting and measurement, and public service delivery in Kenya;	Secondary	Multiple Regression: $Y = \beta_o + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$, where Y = Customer Satisfaction β_o= Constant β_1, B_2 = Regression Constants X_1= Performance Improvement X_2 = Political Stability
3	To establish the moderating effect of global competitiveness on the relationship between performance contracting and measurement and public service delivery in Kenya	**H_3**There is no moderating effect of global competitiveness on the relationship between performance contracting and measurement, and public service delivery in Kenya;	Secondary	Multiple Regression: $Y = \beta_o + \beta_1 X_1 + \beta_3 X_3 + \varepsilon$, where Y = Customer Satisfaction β_o= Constant β_1, β_3 = Regression Constants X_1 = Performance Improvement X_3 = Global Competitiveness
4	To establish the joint effect of political stability, as well as global competitiveness, on the relationship between performance contracting and measurement and public service delivery in Kenya	**H_4**-There is no joint effect of political instability as well as global competitiveness, on the relationship between performance contracting and measurement, and public service delivery in Kenya;	Secondary	Multiple Regression: $Y = \beta_o + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$, where Y = Customer Satisfaction β_o= Constant $\beta_1, \beta_2, \beta_3$ = Regression Constants X_1 = Performance Improvement X_2 = Political Stability X_3 = Global Competitiveness

3.6 Chapter Summary

This chapter has presents the research methodology of the study. It comprises the philosophical orientation that will be employed in the study. The choice of the positivism approach (objective) that will guide this study and its justification is presented. The chapter then discusses and justifies the research design to be used; describes the population of the study, the data collection method, the instrument and the nature of the respondents. Data analysis techniques and the analytical models that will be applied in the study are presented and supported with relevant evidence.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION OF FINDINGS

4.1 Introduction

The study sought to establish the relationship between performance contracting and measurement and public service delivery in Kenya. To achieve this objective, four specific objectives and their corresponding hypotheses were formulated. A number of inferential statistical operations were performed to test the hypotheses. Performance contracting and measurement were designed to improve institutional and managerial performance measured using composite scores and to consequently improve public service delivery. Public service delivery on the other hand is expected to be the outcome of improvement in performance measured through customer satisfaction indices obtained through annual customer satisfaction surveys over the period under consideration. To test the hypotheses, correlation and regression analyses were carried out to establish the expected relationships between performance contracting and measurement, and public service delivery in Kenya, and the intervening and moderating effects of, respectively, political stability and global competitiveness, on this relationship. In addition, t-test and p-values were used to determine individual significance of the results of the analysis. Assessment of the overall robustness and significance of the regression models was done using the F-test and p-values.

4.2 Pretesting for Multiple Regression Assumptions

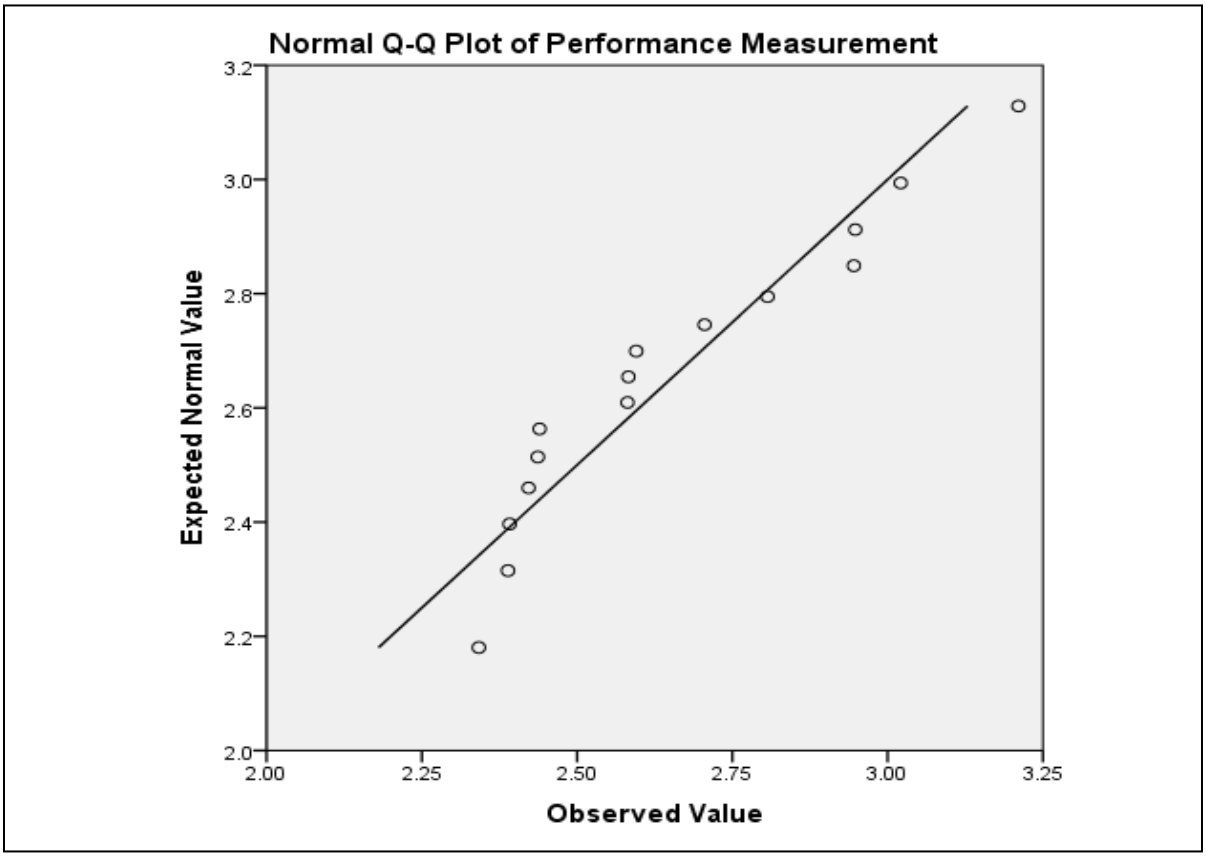
Usually, there are assumptions that are made about variables during statistical tests. One of the main assumptions is that data follows a normal distribution. Statistical procedures used in analyses may however have some errors and therefore need to be tested. This is to

ensure that the findings are worth using in decision making. Testing for assumptions is beneficial because it ensures that analysis meets associated assumptions and helps avoid 89 Type I and Type II errors (Osborne et al, 2001). This study therefore carried out test of normality, linearity, Homogeneity of variances and Multicollinearity tests.

4.2.1 Tests of Normality

Normality tests are used to establish if a data set is well-modeled by a normal distribution, compute the likelihood of a random variable underlying the data set to be normally distributed and to justify the use of the mean as the measure of central tendency (Zikmund, 2010)**.** They are therefore measures of goodness of fit of a normal model to the data; if the fit is poor, then the data are not well modeled in that respect by a normal distribution. Tests of normality are important because the bulk of the statistical analysis such as regression, correlation, and t-tests are premised on the presumption of normal distribution of data (Ghasemi & Zahediasl, 2012). The study's variables were found to be in conformity with the test of normality, implying that there was no skewedness, using a normal Q-Q plot shown in Figure 4.1. The Q-Q plot established that the data used for the study were fairly normally distributed and statistically significant as relates to customer satisfaction, political stability and global competitiveness.

Figure 4.1: Normal Q-Q Plot



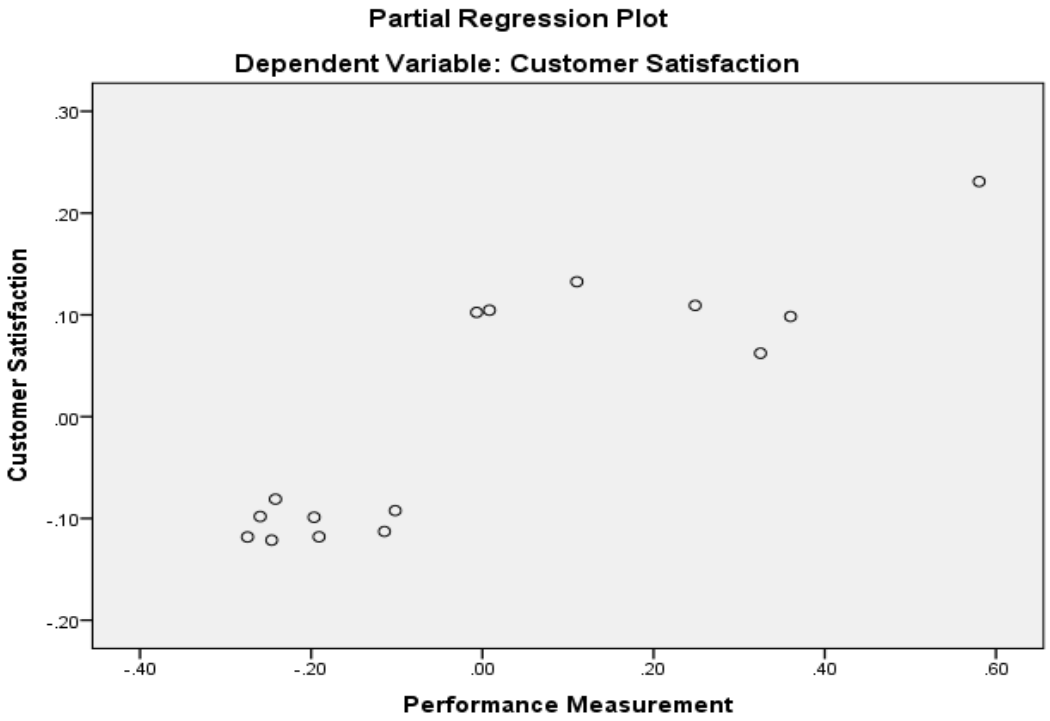
Source: Field Data (2015)

The linearity of the points in the above Q-Q plot suggests that the data were normally distributed.

4.2.2 Tests of Linearity

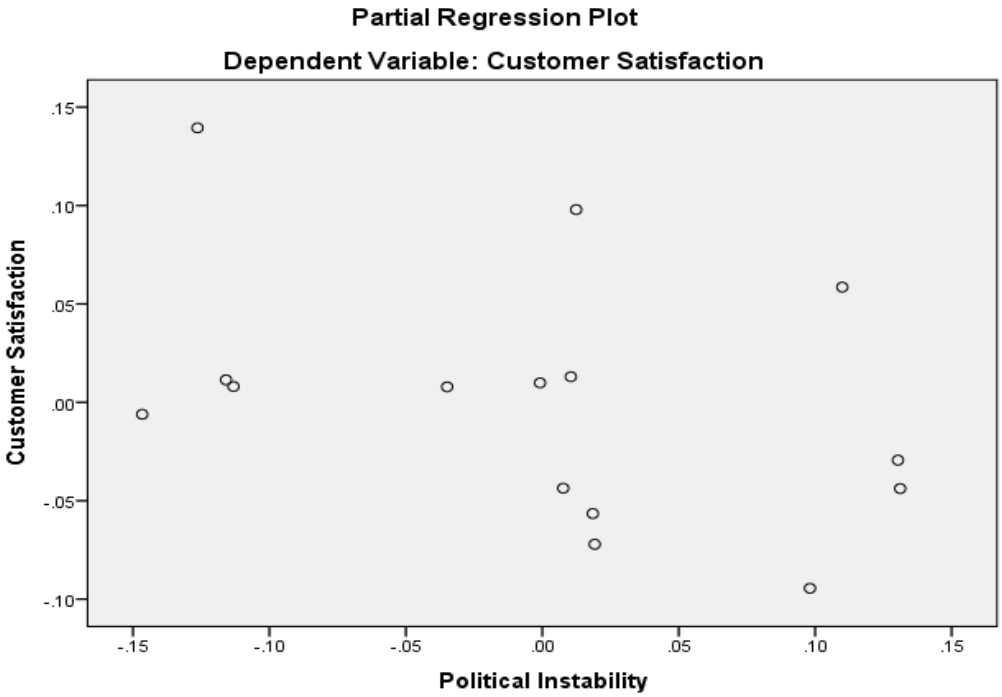
Tests of linearity are carried out to establish that the data used for analysis was sampled from a population that relates the variables of interest in a linear fashion. A linearity test was conducted to establish the linear relationship between the variables used in the study. The findings were that political stability and global competitiveness did not show close linearity, whereas performance measurement and customer satisfaction exhibited a closer linear relationship. These are shown in Figures 4.2, 4.3 and 4.4.

Figure 4.2: Performance Measurement and Customer Satisfaction



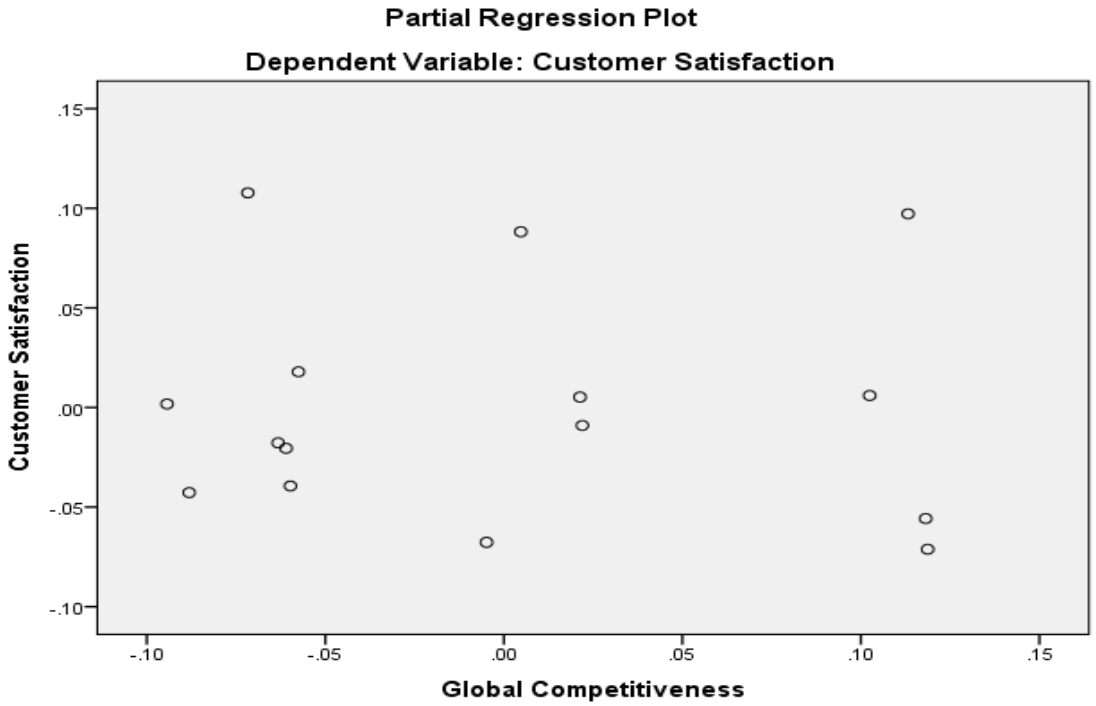
Source: Field Data (2015)

Figure 4.3: Political Stability and Customer Satisfaction



Source: Field Data (2015)

Figure 4.4: Political Stability and Customer Satisfaction



Source: Field Data (2015)

4.2.3 Test of Homogeneity of Variances

A test of homogeneity of variances was carried out to establish the significance of the variance of the variables used in the study. The test indicated that the variances of the variables are not necessarily statistically significant. This is shown in Table 4.1

Table 4.1: Test of Homogeneity of Variances

Variable	Levene Statistic	Sig.
Performance Measurement	2.146	.152
Customer Satisfaction	1.345	.310
Political Instability	2.064	.154
Global Competitiveness	1.382	.427

Source: Field Data (2015)

4.2.4 Multicolinearity Test

Multicollinearity tests are carried out primarily to avoid the problem of multiple counting, brought about when a researcher uses the same type of information more than once with different variables, which is common in technical analysis. A multicolinearity test was also carried out and the findings indicated that political stability and global competitiveness have identical tolerance and identical variance inflation factor (VIF) values regarding the multicolinearity. There was therefore no multicolinearity amid these indicators. This is shown in Table 4.2.

Table 4.2: Multicolinearity Coefficients[a]

Model		Collinearity Statistics	
		Tolerance	VIF
1	Global Competitiveness	.781	1.280
	Political Instability	.781	1.280
a. Dependent Variable: Customer Satisfaction			
Coefficients[a]			
Model		Collinearity Statistics	
		Tolerance	VIF
1	Political Instability	.982	1.018
	Customer Satisfaction	.982	1.018
a. Dependent Variable: Global Competitiveness			

Source: Field Data (2015)

4.3 Descriptive Analysis of the Study Variables

The analysis was carried out using the Statistical Package for Social Sciences (SPSS), version 21 and both descriptive and inferential statistics. Descriptive statistics was carried out to summarize the data and to bring out variability and dispersion using the mean, the standard deviation and the coefficient of variation. Standard deviation shows how far the distribution is from the mean. A small standard error implies that most of the sample means will be near the center population means thus the sample mean has a good chance of being close to the population mean and a good estimator of the population mean. On the other hand, a large standard error illustrates that the given sample mean will be a poor estimator of the population mean (Harvill, 1991).

Correlation coefficients were computed to establish the relationship between the study variables and the extent to which the dependent variable could be predicted from the independent variable, and to derive the regression equation. Linear regression analysis was used to examine the models overall and individual statistical significance by using F-value and t-value, respectively. In both cases, if the p-value was less than or equal to 0.05, the hypothesis was rejected otherwise the hypothesis failed to be rejected if the p-value was greater than 0.05. A model equation was derived for each hypothesis using variables that were significant.

Table 4.3: Shows the Descriptive Statistics of the Study Variables

Variable	T-value	Sig. (2-tailed)	Mean	Std. Deviation	CV (%)
Performance Measurement	37.720	.000	2.65439	.27255	10.27
Customer Satisfaction	8.699	.000	0.27779	.12368	44.52
Global Competitiveness	157.181	.000	3.69800	.09112	2.46
Political Stability	-47.656	.000	-1.31533	.10690	-8.13

Source: Field Data (2015)

As the table indicates, the public sector in Kenya had an average customer satisfaction index of 0.27779 implying that nearly 73 percent of customers were dissatisfied with the public sector service delivery. Performance measurement had the highest variability (SD = 0.27255) across the public sector made up of ministries, state corporations local authorities and tertiary institutions. Political stability was found to be weak with a mean of -1.31533 on a scale of -2.5 (very weak) and 2.5 (very strong). Global competitiveness on the other hand was found to be an average of 3.698 on a scale of 1 (very low) and 7 (very competitive).

The coefficient of variation was computed to show the variability in the data of the study parameters. Customer satisfaction shows the greatest variability, followed by performance measurement. The global competitiveness shows the least variability and political stability has fairly negative variability.

Table 4.4: Correlation Analysis of the Study Variables

		Performance Measurement	**Customer Satisfaction**	**Global Competitiveness**	**Political Stability**
Performance Measurement	Pearson Correlation	1			
	Sig. (2-tailed)				
Customer Satisfaction	Pearson Correlation	.858**	1		
	Sig. (2-tailed)	.000			
Global Competitiveness	Pearson Correlation	.086	.159	1	
	Sig. (2-tailed)	.760	.571		
Political Stability	Pearson Correlation	.099	-.134	-.468	1
	Sig. (2-tailed)	.724	.633	.079	

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Field Data (2015)

The correlation analysis of the study variables (Table 4.4) indicates that all the four study's variables were related but not perfectly. Performance measurement was highly correlated with customer satisfaction (R = 0.858) and the relationship was significant at 99 percent confidence level. This high relationship, indicating that performance improvement (the product of performance measurement) and customer satisfaction share 0.858^2or about 73.6 per cent of their variation, brings out the importance of having a performance measurement system to establish performance levels and to monitor how customers are served in the public sector. Global competitiveness was found to be negatively related with political stability (R = -0.468) and the relationship was not significant. This indicates that social-political chaos and turmoil may not have a significant impact on the attractiveness of a country in the global arena.

4.4 Performance Measurement and Customer Satisfaction

The first objective of the study was to establish the relationship between performance contracting and measurement, and customer satisfaction in the services delivered by Kenya's public sector. Hypothesis one was formulated as:

H_1: There is no significant relationship between performance contracting and measurement and public service delivery in Kenya.

The results of the analysis carried out to establish the relationship between performance measurement and customer satisfaction are shown in Table 4.5. The results show that performance measurement had a strong positive relationship (R = 0.858) with customer satisfaction. Performance measurement explained 73.6 percent (R^2 = 0.736) of customer satisfaction levels with the remaining 26.4 percent accounted for by other factors. The F-value for the model was 36.176 and the derived p-value was 0.000. Since the derived p-value of 0.000 was less than 0.05, with a table value of 2.145 as compared to a calculated value of 6.015, the hypothesis was rejected hence performance measurement had a significant relationship with customer satisfaction. The performance measurement variable had a t-value of 6.015 and was significant.

Table 4.5: Relationship between Performance Measurement and Customer Satisfaction

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.858[a]	.736	.715	.06599
a. Predictors: (Constant), Performance Measurement				

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.158	1	.158	36.176	.000[b]
	Residual	.057	13	.004		
	Total	.214	14			
a. Dependent Variable: Customer Satisfaction						
b. Predictors: (Constant), Performance Measurement						

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.755	.173		-4.376	.001
	Performance Measurement	.389	.065	.858	6.015	.000
a. Dependent Variable: Customer Satisfaction						

Coefficients[a]

Source: Field Data (2015)

A model equation of the relationship is described in equation 4.1.

Customer satisfaction = - 0.775 + 0.389 Performance Improvement …..Equation 4.1

This shows that a unit change in performance improvement, impelled by performance measurement, will result in customer satisfaction changing by a factor of 0.389. In the absence of performance improvement, a constant customer satisfaction of negative 0.775 would be realized.

Additional analyses were carried out to establish the effect of both political stability and global competitiveness on customer satisfaction in Kenya's public sector. The results of the analyses are shown in Tables 4.6 and 4.7.

Table 4.6: Relationship between Political Stability and Customer Satisfaction

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.134[a]	.018	.057	.12718
a. Predictors: (Constant), Political Stability				

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.004	1	.004	.239	.633[b]
	Residual	.210	13	.016		
	Total	.214	14			
a. Dependent Variable: Customer Satisfaction						
b. Predictors: (Constant), Political Stability						

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.073	.420		.175	.864
	Political Stability	-.155	.318	-.134	-.489	.633
a. Dependent Variable: Customer Satisfaction						

The results in Table 4.6 show that political stability had a weak positive relationship with customer satisfaction. This finding is supported by the fact that the mean political stability index was very low at -1.31533. Political stability explained 1.8 percent (R^2 = 0.018) of customer satisfaction levels with the remaining 98.2 percent accounted for by other factors implemented in the public sector. The F-value for the model was 0.239 and the derived p-value was 0.633. Since the derived p-value was greater than 0.05, the indication was that political stability had no significant relationship with customer satisfaction. The relationship between global competitiveness and customer satisfaction in Kenya's public sector is shown in the Table 4.7.

Table 4.7: Relationship between Global Competitiveness and Customer Satisfaction

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.159[a]	.025	-.050	.12671
a. Predictors: (Constant), Global Competitiveness				

ANOVAa						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.005	1	.005	.338	.571[b]
	Residual	.209	13	.016		
	Total	.214	14			
a. Dependent Variable: Customer Satisfaction						
b. Predictors: (Constant), Global Competitiveness						

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.522	1.375		-.379	.711
	Global Competitiveness	.216	.372	.159	.582	.571
a. Dependent Variable: Customer Satisfaction						

Source: Field Data (2015)

Table 4.7 shows the results of the analysis done to establish the effect of global competitiveness on the customer satisfaction levels. The results show that global competitiveness had a weak positive relationship with customer satisfaction. This finding is supported by the fact that the mean global competitiveness index was neither strong nor weak at 3.698. Global competitiveness explained 2.5 percent (R^2 = 0.025) of customer satisfaction levels with the remaining 97.5 percent accounted for by other factors implemented in the public sector. The F-value for the model was 0.338 and the derived p-value was 0.571. Since the derived p-value was greater than 0.05, the indication was that global competitiveness had no significant relationship with customer satisfaction.

4.5 Intervening Effect of Political Stability on the Relationship between Performance Measurement (Improvement) and Customer Satisfaction

The second objective of the study was to establish the intervening effect of political stability on the relationship between performance contracting and measurement, and customer satisfaction in the services delivered by Kenya's public sector. Hypothesis two was formulated as:

H2: There is no significant intervening effect of political stability on the relationship between performance contracting and measurement and public service delivery in Kenya.

The results of the analysis conducted to establish the intervening effect of political stability on the relationship between performance measurement and customer satisfaction are shown in Table 4.8. The results show that political stability explained an additional 4.9 percent ($\Delta R^2 = 0.049$) on the direct effect of performance measurement on customer satisfaction. The change in the F-value caused by the intervening effect was 2.712 and was not significant since the derived p-value of 0.126 was greater than 0.05. The F-value for the intervening model was 21.825 and the derived p-value was 0.000. Since the derived p-value was less than 0.05, with table value of 2.145 as compared to a calculated value of 6.530, the hypothesis was rejected suggesting that political stability has a significant intervening effect on the relationship between performance measurement and customer satisfaction. The performance measurement variable had a t-value of 6.530 and was statistically significant while the effect of political stability had a t – value of – 1.647 although not statistically significant.

Table 4.8: Intervening Effect of Political Stability

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.858[a]	.736	.715	.06599	.736	36.176	1	13	.000
2	.886[b]	.784	.748	.06203	.049	2.712	1	12	.126
a. Predictors: (Constant), Performance Measurement									
b. Predictors: (Constant), Performance Measurement, Political Stability									

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.158	1	.158	36.176	.000[b]
	Residual	.057	13	.004		
	Total	.214	14			
2	Regression	.168	2	.084	21.825	.000[c]
	Residual	.046	12	.004		
	Total	.214	14			
a. Dependent Variable: Customer Satisfaction						
b. Predictors: (Constant), Performance Measurement						
c. Predictors: (Constant), Performance Measurement, Political Stability						

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.755	.173		-4.376	.001
	Performance Measurement	.389	.065	.858	6.015	.000
2	(Constant)	-1.119	.274		-4.081	.002
	Performance Measurement	.399	.061	.880	6.530	.000
	Political Stability	-.257	.156	-.222	-1.647	.126

Source: Field Data (2015)

A model equation of the intervening effect of political stability on the relationship between performance measurement and customer satisfaction is described in equation 4.2.

C Customer satisfaction = - 1.119 + 0.399 Performance Improvement - 0 .257 Political Stability ……Equation 4.2

This shows that a unit change in performance improvement, impelled by performance measurement, will result in customer satisfaction changing by a factor of 0.399. The unit change in Political Stability contributes negatively to the customer satisfaction by a factor of 0.257 though not statistically significant. In the absence of performance measurement and political stability a constant customer satisfaction of negative 1.119 would be realized.

4.6 Moderating Effect of Global Competitiveness on the Relationship between Performance Measurement and Customer Satisfaction

The third objective of the study was to establish the moderating effect of global competitiveness on the relationship between performance contracting and measurement, and customer satisfaction in the services delivered by Kenya's public sector. Hypothesis three was formulated as:

H3: There is no significant moderating effect of global competitiveness on the relationship between performance contracting and public service delivery in Kenya.

The results of analysis carried out to establish the moderating effect of global competitiveness on the relationship between performance measurement and customer satisfaction are shown in Table 4.9. The results show that global competitiveness explained an additional 0.7 percent ($\Delta R^2 = 0.007$) on the direct effect of performance measurement on customer satisfaction. The change in the F-value caused by the moderating effect was 0.343 and was not significant since the derived p-value of 0.569 was greater than 0.05. Since the derived p-value was greater than 0.05, the hypothesis was supported and therefore failed to be rejected. The performance measurement variable had a t-value of 5.789 and was statistically significant while the effect of global competitiveness was positive although not statistically significant.

Tale 4.9: Moderating Effects of Global Competitiveness

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.858[a]	.736	.715	.06599	.736	36.176	1	13	.000
2	.862[b]	.743	.700	.06772	.007	.343	1	12	.569
a. Predictors: (Constant), Performance Measurement									
b. Predictors: (Constant), Performance Measurement, Global Competitiveness									

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.158	1	.158	36.176	.000[b]
	Residual	.057	13	.004		
	Total	.214	14			
2	Regression	.159	2	.080	17.346	.000[c]
	Residual	.055	12	.005		
	Total	.214	14			
a. Dependent Variable: Customer Satisfaction						
b. Predictors: (Constant), Performance Measurement						
c. Predictors: (Constant), Performance Measurement, Global Competitiveness						

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.755	.173		-4.376	.001
	Performance Measurement	.389	.065	.858	6.015	.000
2	(Constant)	-1.178	.743		-1.585	.139
	Performance Measurement	.386	.067	.850	5.789	.000
	Global Competitiveness	.117	.199	.086	.586	.569

Source: Field Data (2015)

A model equation of the moderating effect of global competitiveness on the relationship between performance measurement and customer satisfaction, impelled by performance measurement, is described in equation 4.3.

Customer Satisfaction = -1.178 + 0.386 Performance Improvement + 0.117 Global Competitiveness …….…… Equation 4.3

This shows that a unit change in performance improvement will result in customer satisfaction changing by a factor of 0.386. The unit change in global Competitiveness will result in a change in customer satisfaction by 0.117, though not statistically significant. In the absence of performance measurement and global Competitiveness customer satisfaction will change by negative 1.178.

4.7 Joint Effect of Performance Measurement, Political Stability and Global Competitiveness on Customer Satisfaction

The fourth objective of the study was to establish the joint effect of political stability and global competitiveness on the relationship between performance contracting and measurement, and customer satisfaction in the services delivered by Kenya's public sector. Hypothesis four was formulated as:

H4: There is no significant joint effect of political stability and global competitiveness on the relationship between performance contracting and measurement and public service delivery in Kenya.

The results of the analysis carried out to establish the joint effect of performance measurement, political stability and global competitiveness on customer satisfaction are shown in Table 4.10. The results show that performance measurement, political stability and global competitiveness were positively related to customer satisfaction. The joint effect of the three independent variables explained 78.5 percent ($R^2 = 0.785$) of customer satisfaction levels with the remaining 21.5 percent accounted for by other factors implemented in the public sector. The F-value for the model was 13.380 and the derived p-value was 0.001. Since the derived p-value was less than 0.05, with table value of 2.145 as compared to a calculated value of 6.213 the hypothesis was rejected hence

performance measurement, political stability and global competitiveness had, jointly, a significant relationship with customer satisfaction. The performance measurement variable had a t-value of 6.213 and was statistically significant. Political stability and global competitiveness on the other hand were found to individually have negative effects on customer satisfaction. The negative effects were however not statistically significant.

Table 4.10: Joint Effect of Performance Measurement, Political Stability, Global Competitiveness on Customer Satisfaction

Model Summary						
Model	R	R Square	Adjusted R Square		Std. Error of the Estimate	
1	.886[a]	.785	.726		.06471	
a. Predictors: (Constant), Global Competitiveness, Performance Measurement, Political Stability						
ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.168	3	.056	13.380	.001[b]
	Residual	.046	11	.004		
	Total	.214	14			
a. Dependent Variable: Customer Satisfaction						
b. Predictors: (Constant), Global Competitiveness, Performance Measurement, Political Stability						
Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.010	.720		-1.404	.188
	Performance Measurement	.401	.065	.883	6.213	.000
	Political Stability	-.271	.185	-.235	-1.464	.171
	Global Competitiveness	-.036	.217	-.026	-.165	.872
a. Dependent Variable: Customer Satisfaction						

Source: Field Data (2015)

A model equation of the joint effect relationship is described in equation 4.4.

Customer Satisfaction = -1.01 + 0.401 Performance Improvement – 0.271 Political Stability – 0.036 Global Competitiveness ……. ……Equation 4.4

The equation demonstrates that a unit change in performance improvement, intervened and mediated respectively by political stability and global competitiveness, will result in customer satisfaction changing by a factor of 0.401. In the absence of performance measurement, political stability and global competitiveness customer, satisfaction will change by negative 1.01. In the study of the joint effect of political stability and global competitiveness on the relationship between performance contracting and measurement and public service delivery, it was found that for a unit percentage change in political stability, there would be a 0.271% decrease in customer satisfaction, while a unit percentage change in global competitiveness would result in a decrease of 0.036%in customer satisfaction, although both were individually not statistically significant.

4.8 Summary of Tests of Hypotheses

Table 4.11 shows the summary of the tests of the hypotheses. The results show that three of the study's hypotheses were supported while one hypothesis went unsupported.

Table 4.11: Summary of Tests of Hypotheses

Hypothesis		**Empirical Evidence**	**R2**	**F**
H_1	There is no significant relationship between performance contracting and measurement, and public service delivery in Kenya	Rejected ∴ *there as a significant relationship*	0.736	36.176
H_2	There is no significant intervening effect of political stability on the relationship between performance contracting and measurement, and public service delivery in Kenya	Rejected ∴ *there was a significant effect*	0.784	2.712
H_3	There is no significant moderating effect of global competitiveness on the relationship between performance contracting and measurement and public service delivery in Kenya	Failed to be rejected ∴ *proposition was accepted*	0.743	0.343
H_4	There is no significant joint effect of political stability and global competitiveness, on the relationship between performance contracting and measurement, and public service delivery in Kenya.	Rejected ∴ *there was a significant joint effect*	0.785	13.38

Source: Field Data (2015)

Hence the conclusions from the findings, along with R^2 and F values, are summarized as indicated in the table below:

Table 4.12: Conclusion from Findings

Hypothesis		R^2	F
H_1	There is no significant relationship between performance contracting and measurement, and public service delivery in Kenya	0.736	36.176
H_2	There is no significant intervening effect of political stability on the relationship between performance contracting and measurement, and public service delivery in Kenya	0.784	2.712
H_3	There is no significant moderating effect of global competitiveness on the relationship between performance contracting and measurement and public service delivery in Kenya	0.743	0.343
H_4	There is no significant joint effect of political stability and global competitiveness, on the relationship between performance contracting and measurement, and public service delivery in Kenya.	0.785	13.38

Source: Field Data (2015)

4.9 Discussion of the Findings

The study brought out interesting inferences on the relationship between performance contracting and measurement, and public service delivery in Kenya. The finding that measurement was highly correlated with both improvement in performance and customer satisfaction did not come as a huge surprise and vindicates both the observation by Osborne et al, (1992), that "what gets measured gets done" and the statement by Brown et al, (2001) that people make decisions and do their work at least partly based on how their performance is measured and evaluated. As a result, they tend to improve in performance aspects that will be measured and rewarded, rather than in un-measured aspects, even if these do not necessarily support organizational goals and customer satisfaction. It also supports statements by Nathan (2009) that the utility of performance management practices is predicated on sound performance measurement system, and the latter should be seen as a prerequisite for effective management and that performance

management practices will continue to be questionable unless they are rooted in a performance measurement system. Moreover, there is a distinct linkage between organizational performance and excellence in public service delivery. It is also consistent with the findings of research by Martinez & Kennerley (2005**)** that performance measurement and management systems deliver superior results and focus people's attention on what is important to an organization; propel business improvement; improve customer satisfaction; increase productivity; align operational performance with strategic objectives; align people behaviors towards continuous improvement; and improve company reputation.

The effects of political stability have been documented in both Kenya and the Kingdom of Lesotho. The fortunes of Kenya, as evidenced by growth in real GDP plummeted steeply following the 2007-2008 post-election skirmishes, which fomented widespread political instability, pitting communities against each other. The growth rates, including the post-election period, are indicated in Appendix III. Business activity in Lesotho was severely albeit gradually affected by political instability resulting from polarization in a loose coalition government. Political stability is closely intertwined with the quality of political governance with poor governance precipitating instability and vice versa. As had been the case in the Kingdom of Lesotho between 2012 and early 2015, the Republic of Kenya was under the governance of a loose coalition of parties that did not agree on many fronts, between 2008 and early 2013.

The most curious findings were that outside the relationship between performance contracting and measurement and public service delivery, political stability and global competitiveness on their own, did not have significant effect on customer satisfaction. That even within the relationship, only political stability had a significant relationship.

This is somewhat surprising, considering the impact political instability had on economic growth and performance in Kenya in 2008, and considering further ras observed earlier in the study, that improvement in organizational performance informs improvement in service delivery. It would be expected too, that improvement in global competitiveness would moderate the performance of an economy. This was not the case as brought out in the study.

Overall, the outcomes of the study should be of practical interest to governments desirous to improve public sector performance, practitioners in the field of performance contracting and measurement and public service delivery, academicians and the public as beneficiaries of public services, as the following chapter indicates.

4.10 Chapter Summary

This chapter presented the research findings and the corresponding interpretations based on the objectives and hypothesis. It presented the findings in a chronological order based on study hypothesis relating the findings with the previous literature. Discussion of the major findings was also presented.

Composite data of study variables were also tested and interpreted using mean scores, coefficients of variations and significance levels. Varied outcomes were noted. Most of the variables had moderately high rankings with statistically significant levels meaning that performance contracting and measurement explained the variation in service delivery in public service.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter includes a summary of the findings of the study along with interpretation of the results, further discussion of the findings, the conclusions made from the findings, limitations of the study and suggestions for further research. The findings and conclusions, which have important implications for public policy formulation and implementation, management of mainly public but also private sector organizations, academicians, general practitioners and significantly, the operations research community, are based on the research objectives and hypotheses.

A number of the findings and conclusions are consistent with both the empirical work carried out in this area and the theoretical assertions captured in both the introduction to the study and the literature review. Some of the findings may also however have been influenced by the unique peculiarities of the Kenyan situation and could conceivably differ with other empirical and academic work to this extent.

The specific objectives of the study were the following, to determine the relationship between performance contracting and measurement and public service delivery in Kenya; to establish the intervening effect of political stability on the relationship between performance contracting and measurement and public service delivery in Kenya; to establish the moderating effect of global competitiveness on the relationship between

performance contracting and measurement and public service delivery in Kenya; and to establish the joint effect of political stability, as well as global competitiveness, on the relationship between performance contracting and measurement and public service delivery in Kenya. Four hypotheses were drawn from the above objectives and from the conceptual framework, and accepted on the basis largely of significance as evidenced by the various statistical tests.

5.2 Summary of the Findings

The research study was focused on the relationship between performance contracting and measurement on the one hand, and public service delivery on the other, as intervened and moderated by respectively, political stability and global competitiveness. Performance contracting as practiced and implemented in the public service in Kenya is essentially a performance management, measurement and improvement system. The essence of the system is that it ensures measuring and improving the performance of all key factors by focusing on multiple management perspectives which include finance and stewardship, operations, service delivery and non-financial and dynamic/qualitative aspects, and using weighted and composite scores to measure the performance. This is consistent with the statements by Hayes and Clark that "In reality, the productivity a firm achieves is a function of how efficiently it uses all its inputs – labor, capital, technology and energy – to produce outputs" (Hayes and Clark, 1986). By introducing the intervening and moderating variables, focusing on a large population of diverse public agencies, the study set itself aside from the empirical studies referred to earlier in the study. Inclusion of these distinctions was deliberate, as attempts to address knowledge gaps and addition to the existing stock of knowledge in the field.

The key finding was that performance measurement is critical to improvement in public service delivery, and accounts for or explains 73.6 percent of improvement in service delivery, with a unit change in measurement of performance resulting in a change of 0.389 in customer satisfaction. Other findings were that both political stability and global competitiveness had significant effects on the relationship between performance improvement – which is the outcome of performance contracting and measurement - on the one hand, and service delivery on the other. Deterioration in political stability affects service delivery adversely while improvement in global competitiveness has a positive effect on service delivery. The converse obtains as true when the intervening and moderating variables are moving in opposite directions. Taken together, the three independent variables explained 78.5 percent ($R^2 = 0.785$) of customer satisfaction levels with the remaining 21.5 percent accounted for by other factors implemented in the public sector. The study established further that on their own individually, both political stability and global competitiveness had no significant relationship with service delivery, and would therefore not significantly affect customer satisfaction.

Preliminary findings had indicated that all the four variables – customer satisfaction, performance measurement, political stability and global competitiveness were related but not perfectly. Performance measurement was singled out as the most highly correlated with customer satisfaction ($R = 0.858$) and the relationship was significant at 99 percent confidence level. This clearly underscores the importance of performance measurement in the improvement of both performance and customer satisfaction. Again, this is consistent with the contention by Brown, et al, (2001), that "Measurement is not only a way of determining what has already happened, which is like 'driving by looking in the

rear-view mirror', but is also a way of getting people to act in ways that will bring about desired future outcomes. It probably came as little surprise that the public sector in Kenya had an average customer satisfaction index of 0.27779, implying that 72 percent of customers were dissatisfied with public service delivery. Performance measurement had the highest variability (SD = 0.27255) across the public sector made up of ministries, state corporations local authorities and tertiary institutions. Political stability was found to be weak with a mean of -1.31533 on a scale of -2.5 (very weak) and 2.5 (very strong). Global competitiveness on the other hand was found to be average of 3.698 on a scale of 1 (very low) and 7 (very competitive).

5.3 Conclusion

The preliminary findings pointed out that customer satisfaction, performance measurement; political stability and global competitiveness are related but not perfectly. Based on the research findings, it can be concluded that performance measurement has a significant effect on customer satisfaction. Secondly, it can be concluded that political stability has an intervening effect on the relationship between performance measurement and customer satisfaction. Further, global competitiveness has a moderating effect on the relationship between performance measurement and customer satisfaction, although on their own, political stability and global competitiveness have no significant effect on customer satisfaction.

5.4 Implications of the Study Findings

The following are the implications of this study for the various constituents, including the government at the policy formulation and implementation levels, the public as the customer and consumer of government services, and the academic and operations management fraternity and practitioners:

5.4.1 Implications for Public Policy Formulation and Implementation

The study findings have important implications for future policy formulation and execution in the public sector. This is because the study has clearly brought out the key variables the management of the public sector needs to put higher resources and effort into, in the pursuit of improved performance of the public service, and increasing efficiency in the exploitation and use of public resources. Top of the variables with the most significant relationship with service delivery and customer satisfaction was performance measurement, which explained 73.6 percent of customer satisfaction levels implying, as in the words of caution by Nathan (2009) then keep boomeranging, that "… performance measurement should not be confused with performance management but should instead be seen as a prerequisite for effective management". Further, that "… the value of performance management practices will continue to be questionable unless they are rooted in a performance measurement system that continuously feeds decision making, as well as produces evidence and supports communication of value added" (Nathan, 2009). Clearly too, performance measurement, within the context of performance contracting, facilitates improvement in service quality, vindicating Drucker's (1999) statements that: if it can't be measured, it can't be managed; what gets measured gets watched and what gets watched gets done. It would accordingly serve governments well in the pursuit of performance improvement, that all forms of performance should be subjected to measurement. As Osborne et al. (1992) contends, "what gets measured gets done".

The effects of the intervening and moderating factors cannot also be wished away. The study brings out that political stability had a positive, albeit weak, relationship with customer satisfaction, explaining 1.8% percent of customer satisfaction levels, while global competitiveness also had a weak positive relationship with customer satisfaction, explaining 2.5% of customer satisfaction levels. The implication here is that the status of political stability has a role in defining the direction customer satisfaction assumes. The core essence of political stability is the quality of governance. Improvement in the quality of governance, which largely defines political stability, impacts positively on service delivery and combines with performance measurement to improve customer satisfaction. Decline in political stability (political instability) precipitates the converse, principally because it affects performance adversely. This stark reality has begun to show its glare in the performance of the tourist industry in the Kingdom of Lesotho. This tiny mountain kingdom experienced serious political turmoil following the formation of a loose coalition government after the May, 2012 general elections. The situation deteriorated in June 2014, leading to the collapse of the coalition, an unscheduled prorogation of parliament, and ultimate Southern African Development Community (SADC) mediated agreement to hold early elections in February 2015.

According to a statement issued by the public relations manager of the Lesotho Tourist Development Corporation (LTDC) to the local media, “The tourism industry is feeling the pinch of a drastic decline in the inflow of tourists as well as decreased spending by both corporate and individual consumers owing to the political and security instability rocking the mountain kingdom. Despite the LTDC efforts in marketing Lesotho as a tourist and investment destination, political turmoil had left the sector reeling. Businesses

have reported a downturn in revenue for lodging, food, events and other hospitality services". In Kenya, political instability following the 2007/2008 post-election skirmishes resulted in sharp decline in economic growth from a high of 7.1% in 2007 to a measly 1.7% in 2008, and a proportionally sharp decline in aggregate performance of the public service (Appendices VII and IX).

On the other hand, improvement in global competitiveness, when taken together with performance measurement, induces improvement in service delivery and increases customer satisfaction, and vice versa. It should finally be noted that the joint effect of the three variables working together, that is measurement premised on improved governance and global competitiveness have a significantly dominant effect on customer satisfaction.

5.4.2 Implications for the Customer

The constituency most affected by the performance of the government is essentially the citizen, who is also the tax payer. The brunt of flawed service delivery is borne fully by the citizen, while improvement in service delivery serves to improve customer satisfaction, underwrite demonstrable value on the tax shilling and build trust in government. When a government is able to identify and manage the factors that influence and affect service delivery, it is better able to relate with the citizen, and to improve customer satisfaction with public services.

Moreover, identifying the key factors affecting performance helps in not only focusing of public resources in the right areas, but also refocusing of managerial effort to address customer-centric issues. This will ensure a government that as Clinton (1995) states, has a lower cost and a higher quality of service, and one that changes along with the people it

serves, in order to cure the anxiety and alienation many people feel toward their government. Clinton (1995) adds, for good measure, that people will regain confidence in government if we make it work better. That there is need to make quality management the culture of government so that no future administration can fail to embrace it.

5.4.3 Implications for the Academic Community

A number of postulates by practitioners and writers in the field of performance management, measurement and improvement have been largely vindicated by the findings of the study, while others have failed to find accommodation. The findings of the study vindicate the assertion by Nutt (2008). In a study carried out in 2008, Nutt compared the success of organizational decisions among three groups, and found that those who made decisions based on the use of quantified performance data were significantly more successful than those who made decisions on the basis of personal "hunches" or feelings, or on the basis of consensus of opinions of others. This does not suggest that the two latter perspectives do not have their utility; rather, it suggests that they must be triangulated with independently verifiable performance data. The robustness of performance management, including its capacity to influence performance is therefore up - scaled by rooting it in a system that quantifies performance and provides evidence-based data.

Nutt (2007) opines that beyond implementing research findings to improve performance, there is a critical requirement to implement evidence-gathering practices into performance management. Nutt (2007) cites a variety of studies that indicate intelligence gathering is the most overlooked step of the decision making process. It can be safely concluded therefore that performance measurement is at the heart of managing and

improving performance (Rummler, 2004), yet according to the research, it is often overlooked (Clark & Estes, 2000; Guerra-López& Leigh, 2009). As Garvin (1993) states "…if something cannot be measured, it cannot be managed". Lebas, (1995) goes to the extreme of negating the existence of performance management without measurement. Performance management "…is instrumental for businesses in providing feedback to employees, allocating resources, adopting a long - term perspective, continuously improving the organization, improving communication and motivating employees", (Sinclair & Zairi, 1995). Martinez and Kennerley (2005) argued that performance measurement and management systems deliver superior results and have the following positive effects: focus people's attention on what is important to an organization; propel business improvement; improve customer satisfaction; increase productivity; align operational performance with strategic objectives; improve people satisfaction; align people behaviors towards continuous improvement; and improve company reputation.

At the expense of redundancy, there is need to reflect on the views of Nathan (2009) that performance measurement should not be confused with performance management but should instead be seen as a prerequisite for effective management. Further, that "… the value of performance management practices will continue to be questionable unless they are rooted in a performance measurement system that continuously feeds decision making, as well as produces evidence and supports communication of value added". He proceeds to state that the first condition to improve and ultimately achieve business excellence, and which must be an attribute of an effective Performance Management System is provision for an elaborate system for performance measurement and evaluation. This helps in establishing progress towards goals. By knowing the real path

for excellence, an organization can identify where to improve and how its limited resources can be more effectively used for this improvement. Aguinis (2007); Aguinis, Joo and Gottfredson (2011); Biron, Farndale and Paauwe (2011); Hantula (2011); Nankervis and Compton (2006); Pulakos and O'Leary 2011) contend however, that although organizational use of performance management systems is widespread, dissatisfaction among both management and employees is also high, and the value added questionable at best. They proceed to argue that performance management has the potential to generate significant value for organizations, but it is frequently ineffective, is often viewed skeptically by employees, typically requires a significant investment of resources and capital, and may actually undermine strategic improvement when implemented poorly (Aguinis, 2007, 2009; Biron et al., 2011; Pulakos & O'Leary, 2011). These contentions can however, be traced back to both poor measurement of important performance indicators and, consequently, poor alignment to performance management interventions.

Performance measurement is a central mechanism in both assessment and evaluation, which provides the required data for identifying the most appropriate interventions to measurably improve performance (Guerra-López, 2008, 2010). The robustness of performance management, including its capacity to influence performance is therefore up - scaled by rooting it in a system that quantifies performance and provides evidence based data. Nutt (2007) opines that beyond implementing research findings to improve performance, there is a critical requirement to implement evidence-gathering practices into performance management.

The findings of the study appear to be largely consistent with the conclusions in three of the past four related studies cited in this report, but contradicts the findings of the fourth study. The studies, their objectives and findings, are shown in Appendix X. The apparent divergence in the studies' findings notwithstanding, the study brings out the essence and critical role that measurement has on performance improvement, leading ultimately to improvement in service delivery and customer satisfaction.

From a public policy perspective, the findings point to the importance of formulating deliberate national policies that allow for the development and employment of strong performance management, measurement and improvement policies and systems by governments. Further, it is important to keep in mind the affirmation by Nathan (2009), that "… the value of performance management practices will continue to be questionable unless they are rooted in a performance measurement system that continuously feeds decision making, as well as produces evidence and supports communication of value added", in addition to the statement by Brown, et al, 2001, that "Measurement is not only a way of determining what has already happened, which is like 'driving by looking in the rear-view mirror', but is also a way of getting people to act in ways that will bring about desired future outcomes". Deliberate measurement of performance should therefore be the core attribute of public sector performance management systems.

5.5 Limitations of the Study

The obvious limitations of the study relate to the weaknesses of cross-sectional study designs: that cross-sectional designs only provide a snapshot of analysis so there is always the possibility that a study could have differing results if another time-frame had been chosen. Further, that the studies cannot be utilized to establish cause and effect

relationships. Other limitations were occasioned by the dismantling of particularly ministerial structures by the constitution of 2010. The constitution drew clear lines between the functions of the national government and the newly established county governments and this affected the structuring and functioning of the residual 18 ministries significantly, relative to the earlier government structure which was organized around 46 ministries and accounting departments.

The subsequent lumping together of several ministerial functions resulted in complex functional tradeoffs and triangulation of functions. This meant that it became difficult to identify any one earlier ministerial performance contract with the emergent ministries, thereby curtailing the possibility of obtaining coherent survey information or conducting meaningful performance trend analysis. The other limitation was to do with lack of a standardized tool for measuring customer satisfaction, leaving external consultants to devise and use often disparate measurement tools. Poor understanding and appreciation of the precepts of the concept and essence of customer satisfaction led, occasionally to review of customer satisfaction scores.

5.6 Suggestions for Further Research

The study findings reveal a number of questions that still need to be addressed. It will be recalled, for example, that the study established that performance measurement explains 73.6 percent of customer satisfaction levels. Political stability explains 1.8 percent while global competitiveness explains 2.5 percent. The three variables explain 78.5 percent of customer satisfaction levels. Further research is required to establish what other factors could explain the remainder of the customer satisfaction level that was not explained by the above variables.

In addition, it emerged that on their own, political stability and global competitiveness do not individually have an effect on customer satisfaction. This comes as a surprise because the default perception is that a country going through political turmoil precipitated by poor governance would in the same vein, record lower performance and service delivery levels. Equally, the default expectation in a situation where global competitiveness is either improving or declining would be that performance and service delivery would assume a concomitant direction. These contradictions require further research.

The study was carried out for a period that the government in Kenya was a loose political coalition where project implementation and the process of governance were often interposed by constant coalition squabbles. It may be apt to establish whether the findings of the study would have been different with a unitary government or a more solid coalition.

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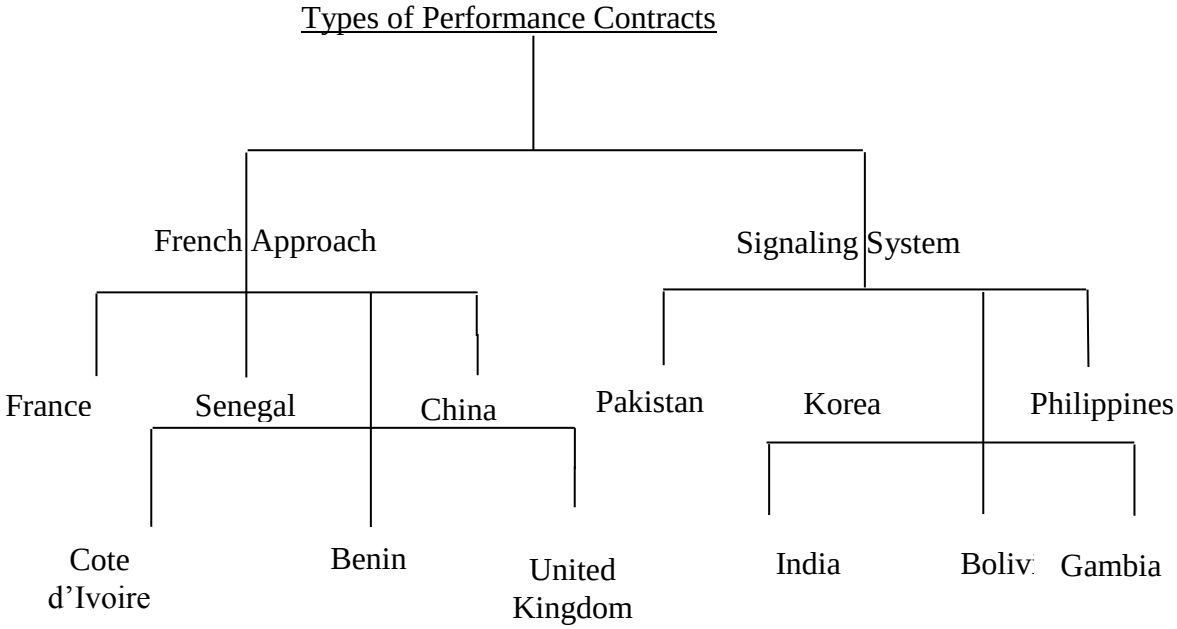
APPENDICES

Appendix I:Types of Performance Contracts



Appendix II: Model Performance Contract Framework

This Performance Contract (hereinafter referred to as "Contract") is entered into between the Government of the Republic Kenya (hereinafter referred to as "GoK") represented by the Permanent Secretary, Secretary to the Cabinet and Head of Public Service of P.O BOX …….Nairobi(together with its assignees and successors) of the one part, and the Permanent Secretary/Accounting Officer, Ministry/Department of ……. (Hereinafter referred to as the "the Permanent Secretary/Account Officer"), (together with its assignees and successors) of P.O BOX ……..of the other part.

WHEREAS;

The Government is committed to ensuring that public offices are well managed and cost less in delivering efficient and quality service to the public;

The Government recognizes that Ministries/Departments hold vital key to improving performance and restoring the faith of the Kenyan people in their government;

The purpose of this performance contract is to establish clarity and consensus about priorities for the Ministry's/Department's management.

This contract represents a basis for continuous improvement as we reinvent our government to meet the needs and expectations of the Kenyan people.

From this contract, should flow the program and management priorities of the Ministry/Department.

NOW THEREFORE**,** the parties hereto agree as follows:

Part I

Vision, Mission and Strategic Objectives

(a) Vision of the Ministry/Department:

- Ideal picture of the future

(b) Mission of the Ministry/Department:

- Focuses attention on the main purpose of the organization
- Aligns the organizational goals, priorities and practices

(c) Strategic Objectives of Ministry/Department

- Objectives should be linked to National policy documents such Vision 2030, MTP,Sector Performance Standards e.t.c.
- Specific, easily understood, attainable, measurable, time bound;
- Quantitative, qualitative, commercial, non-commercial, static, dynamic;
- Not many; avoid repetitions, contradictions and overlaps;
- Only outcome (not process) objectives to be included;
- Include all critical objectives.

Part II

Commitments and Responsibilities of

Permanent Secretary/Accounting Officer

- Developing and implementing strategic plans in the Ministry/Department
- Ensuring strategic plans are linked to National policy documents such as Vision 2030, MTP, Sector Performance Standards e.t.c.;
- Ensuring appropriate work plans are developed on the basis of the strategic plans;
- Developing comprehensive performance targets
- Assigning weights to performance indicators
- Signing performance contract with the Permanent Secretary/Secretary to the Cabinet and Head of Public Service;
- Ensuring achievement of the agreed targets;
- Preparing employees in the organization for the desired changes in working styles, attitudes and work ethics.

Part III

Commitments and Obligations of the Government

- Assistance required from Government should reflect assistance which is not within the Ministry's mandate e.g. implementation of laws and increase in funding are already within the mandate of the Ministry/Department

- Government to ensure that public officers suspected of corrupt practices step down to allow room for investigations.

Part IV

Frequency of Monitoring and Information Flow

- Modalities of information flow
- Frequency of monitoring

Part V

Duration of the Performance Contract

The Performance Contract will run for one financial year.

Part VI

Signing of Performance Contract

Signed:

Permanent Secretary ……..Date……..…….

Ministry/Department:

Permanent Secretary/Secretary to the Cabinet and Head of Public Service

……Date……..……...……
Counter-signed:

Honorable Minister…….Date……

Ministry of ……

Endorsed

Rt. Hon. Prime Minister…….Date……..

Appendix III: Performance Contract Matrix

				Previous YR YR (-1)	Current Status YR (0)	Target	CRITERION VALUES							
	CRITERIA CATEGORY	UNIT	WT				Excellent (1.00-2.40)	Very Good (2.40-3.00)	Good (3.00-3.60)	Fair (3.60-4.00)	Poor (4.00-5.00)	Achievement	Raw Score	Weighted Score
A	Finance & Stewardship • Indicators													
	Weight Sub total		20											
B	Service Delivery • Indicators													
	Weight Sub total		25											
C	• Non-Financial • Indicators													
	• Weight Sub total		15											
D	• Operations • Indicators													
	Weight Sub total		25											
E	Dynamic/Qualitative Indicators													
	Weight sub total		10											
	Corruption Eradication													
	Weight Sub Total		5											
	Total		100											

Appendix IV: Citizens' Service Delivery Charter

NO.	SERVICES/GOODS	REQUIREMENTS TO OBTAIN SERVICES/GOODS	COST	TIMELINE

"Commitment to Courtesy and Excellence in Service Delivery"

Any service that does not conform to the above standards or any officer who does not live up to commitment to courtesy and excellence in Service Delivery should be reported to :

a. The PS/Accounting Officer/CEO/MD/Principal etc of thePublic Institution…….……

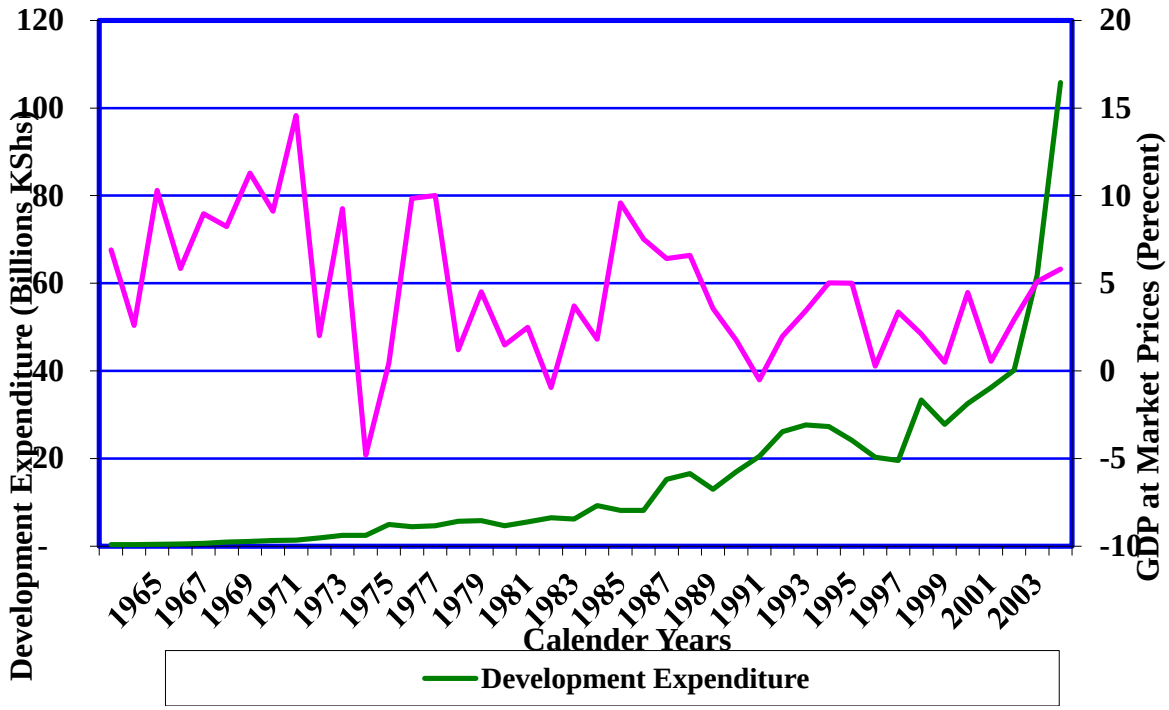
b. The Ombudsman…….
(hot lines should be provided in both cases)

Appendix V: Development Expenditure as percent of Total Expenditure

Year	Total Expenditure (KShs)	**Development Exp. (Ksh.)**	% of Total
1960			
1961			
1962			
1963			
1964	1,172,514,580	304,853,540	26.00%
1965	1,293,680,940	293,489,420	22.69%
1966	1,451,390,600	313,083,420	21.57%
1967	1,520,725,720	354,863,860	23.34%
1968	1,762,987,760	421,116,880	23.89%
1969	1,982,475,480	517,499,200	26.10%
1970	2,361,298,140	645,595,900	27.34%
1971	2,925,507,060	951,134,580	32.51%
1972	3,515,487,500	1,076,110,060	30.61%
1973	3,947,293,760	1,261,806,400	31.97%
1974	4,486,642,320	1,353,172,740	30.16%
1975	5,738,597,500	1,853,214,120	32.29%
1976	7,044,472,220	2,492,318,720	35.38%
1977	7,772,655,300	2,455,179,240	31.59%
1978	12,052,295,900	4,917,358,520	40.80%
1979	13,198,473,140	4,401,866,620	33.35%
1980	14,742,599,440	4,640,910,260	31.48%
1981	17,408,358,340	5,657,858,600	32.50%
1982	19,978,315,720	5,842,147,120	29.24%
1983	19,607,417,640	4,653,162,580	23.73%
1984	21,533,866,490	5,559,417,430	25.82%
1985	23,460,315,340	6,465,672,280	27.56%
1986	24,251,325,220	6,181,978,960	25.49%
1987	32,047,230,000	9,243,656,600	28.84%
1988	35,085,856,880	8,172,045,840	23.29%
1989	25,198,432,660	8,137,262,760	32.29%
1990	46,597,584,460	15,253,518,460	32.73%
1991	52,062,813,760	16,554,960,120	31.80%
1992	49,192,306,140	12,997,333,480	26.42%
1993	60,444,018,440	17,028,725,780	28.17%
1994	77,100,084,320	20,536,529,560	26.64%
1995	101,197,860,140	26,128,312,520	25.82%
1996	117,168,533,300	27,687,733,540	23.63%
1997	127,793,434,640	27,318,969,900	21.38%
1998	143,768,064,220	24,143,694,540	16.79%
1999	158,176,703,040	20,293,558,020	12.83%
2000	144,179,487,740	19,581,211,360	13.58%
2001	198,518,350,917	33,366,819,993	16.81%
2002	204,554,850,864	27,821,518,058	13.60%
2003	219,744,483,248	32,529,594,082	14.80%
2004	250,629,375,925	36,188,116,860	14.44%
2005	280,226,382,275	40,181,462,390	14.34%
2006	336,719,420,465	61,812,300,804	18.36%
2007	407,946,769,898	105,839,813,298	25.94%
2008	3,281,560,739,442	**653,430,948,415**	

Source: Ministry of Finance

Appendix VI: Development Expenditure vs GDP Growth at Market Prices



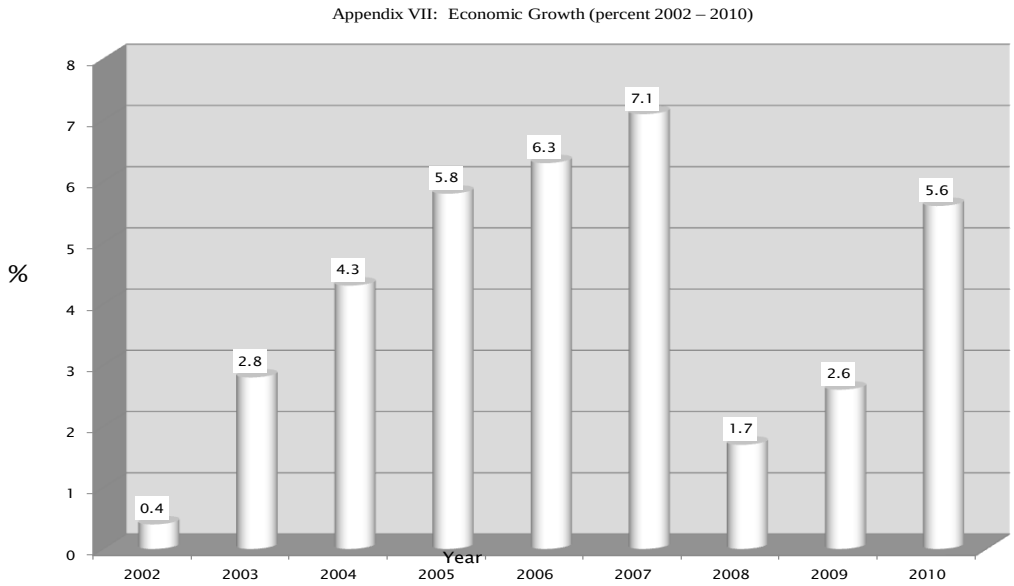
Source: Ministry of Finance; Auditor- General

Appendix VII: GDP Trend

	GDP growth rate (at factor cost)	GDP growth rate (at mkt price)
1960		
1961		
1962		
1963		
1964	6.8	6.9
1965	2.4	2.6
1966	10.5	10.3
1967	4.6	5.8
1968	7.7	9.0
1969	6.4	8.2
1970	6.9	11.3
1971	5.7	9.1
1972	6.5	14.6
1973	6.5	2.0
1974	4.1	9.3
1975	1.2	-4.8
1976	5.6	0.4
1977	8.6	9.8
1978	7.7	10.0
1979	5.0	1.2
1980	4.0	4.5
1981	6.0	1.5
1982	3.9	2.5
1983	2.5	-1.0
1984	0.9	3.7
1985	5.1	1.8
1986	5.5	9.6
1987	4.9	7.5
1988	5.1	6.4
1989	5.1	6.6
1990	4.2	3.6
1991	2.1	1.7
1992	0.5	-0.5
1993	0.2	2.0
1994	3.0	3.4
1995	4.8	5.0
1996	4.6	5.0
1997	2.4	0.3
1998	1.8	3.4
1999	1.4	2.1
2000	-0.2	0.5
2001	1.2	4.5
2002	1.2	0.5
2003	3.1	2.9
2004	3.9	5.1
2005	5.2	5.8
2006	5.6	6.4
2007	6.2	7.1
2008	0.9	1.7

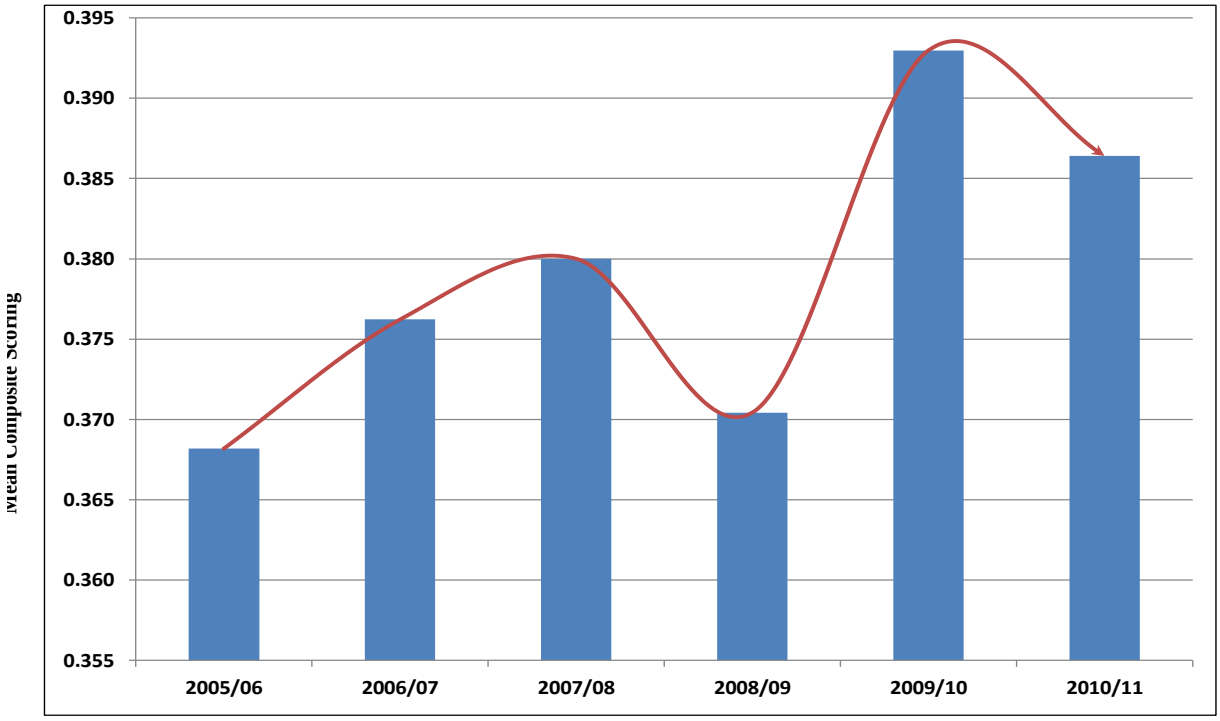
Source: Ministries of Finance and Planning

Appendix VIII: Economic Growth (percent 2001-2010)



Source: Performance Evaluation results. Office of the Prime Minister

Appendix IX: Public Service Aggregate Performance



Source: Performance Evaluation results. Office of the Prime Minister

Appendix X: Economic Performance for selected Countries

No.	*Country*	*Area Sq.km*	*Popul. (mil)*	*GDP (US$ Tril/Bil)*	*GDP Per Capita (US$)*	*Life Exp (Yrs)*	*Unemployment %*	*% Below poverty line*
1	*Japan*	*377,915*	*127*	*5.981 Tri*	*46,973*	*83*	*3.6*	*16*
2	*UK*	*242,900*	*63*	*2.450 Tri*	*39,459*	*80*	*6.9*	*14*
3	*S. Korea*	*99,678*	*49*	*1.164 Tri*	*31,753*	*81*	*3.5*	*15*
4	*Singapore*	*697*	*5.4*	*277 bil*	*51,709*	*82*	*1.8*	*N/A*
5	*Malaysia*	*329,750*	*25*	*304 Bil*	*10,304*	*74*	*3.1*	*3.8*
	DRC	*2,345,410*	*69.6*	*66.7 Bil*	*237*	*46*	*NA*	*71*
	Tanzania	*945,078*	*47.7*	*24.9 Bil*	*578*	*59*	*NA*	*36*
	Lesotho	*30,355*	*2.54*	*2.448 Bil*	*1,380*	*49*	*25**	*57.3**
	Kenya	*582,650*	*40*	*37.9 Bil*	*1,008*	*60*	*42*	*50*
	Nigeria	*923,768*	*160*	*509.9 Bil*	*1631*	*53*	*27.9*	*70*
	S. Africa	*1,219,090*	*54.9*	*408 Bil*	*8,078*	*56*	*24.7*	*50*

*Source:CIA World Factbook. 2013; *Lesotho MDG Report 2013*

Append XI: Previous Related Studies

	1	2	3	4
Researcher	Kai Chieh HU, Assistant Professor, Department of Business Administration Soochow University, Taipei, Taiwan. William JEN, Professor Department of Transportation Technology and Management, National Chiao Tung University Hsinchu, Taiwan.	Eugene W. Anderson; Claes Fornell, & Roland T. Rust. School of Business Administration. The University Michigan, Ann Arbor, Michigan 48109-1234. Owen Graduate School of Management, Vanderbilt University, Nashville, Tennessee 37203.	Hudson Moloto Maila. Public Management University of South Africa	Adams B. Steven; Yan Dong; Martin Dresner. Robert H. Smith School of Business, University of Maryland, College Park, MD 20742
Study	Exploring the Antecedents of Satisfaction and Loyalty for Freight Shipping Industry in Taiwan From the Viewpoint of Business Customers.	To investigate whether there are conditions under which there are tradeoffs between customer satisfaction and firm productivity.	Performance management and service delivery in the Department of water affairs and forestry (DWAF).	Investigate the linkages between customer service, customer satisfaction, and firm performance in the U.S. airline industry
Year	2010	1994	2006	2012
Objective	Establish the effects of service quality and relational performance on customer satisfaction and loyalty in a business-to-business context.	Establish the links between customer satisfaction and productivity.	Establish the role of performance management as a pre-condition for organizational performance and improved public service delivery.	To investigate moderating variables that may influence the linkage between customer satisfaction and performance, notably market power and market concentration.
Methodology	Adopted business customers of freight shipping companies in Taiwan as its sample; Collected data via a self-administered questionnaire; Structural equation modeling was used to verify the fitness of	Used measures of customer satisfaction provided by the Swedish Customer Satisfaction Barometer from 1989 to 1992.Tradeoffs hypothesis was tested using a statistical model; Used a series of methodological	Researcher used empirical data such as the departmental strategic plan and the annual report, official and unofficial documents in the department, articles as well as newspaper reports in order to do content analysis; The information	Used a model that first estimates complaints, and then the estimated value for complaints is used in the second equation in a two stage least square (2SLS) methodology that corrects for the

	the theoretical model, and the causal relationships and inputs among variables	approaches to address potential sources of bias: for example, to control for unobserved fixed effects, the efficacy of transforming the specifications in the model was considered; p-differencing was considered to investigate the possibility of serial correlation; and the instrumental variables approach was applied to control for potential measurement error and random effects.	was spread on a BSC to measure the organisation's performance in terms of service delivery. to eliminate biases, the researcher opted to "complement this with a strong theoretical base (also termed the authority argument) and a coherent convincing argument based on both empirical evidence, and the researcher's understanding and logic. It is in this articulated interpretation that the understanding and explanation of the phenomenon lie – not in the presentation of organized and rearranged data" (Henning, 2004:7).	endogeneity between the complaints and the other customer service measures. Model allowed for nonlinearities in the relationship between customer service and customer satisfaction to account for diminishing marginal returns to customer service
Findings	Analytical results showed that customer loyalty was influenced by the level of satisfaction; Additionally, relational performance and service quality are significant predictors of satisfaction; relational performance is an antecedent of service quality and satisfaction, and its influence on satisfaction is greater than that of service quality	The association between changes in customer satisfaction and changes in productivity is positive for goods, but negative for services; While both customer satisfaction and productivity are positively associated with Return on Investment (ROI) for goods and services, the interaction between the two is positive for goods but significantly less so for services; This means that simultaneous attempts to increase both customer satisfaction and productivity are likely to be more challenging in	The conclusion drawn by the researcher is that the introduction of performance management in DWAF has not brought about the desired impact on service delivery.	Market concentration moderates the relationship between satisfaction and profitability for U.S. airlines. Airlines that operate in concentrated markets have fewer incentives to satisfy their customers than airlines that operate in more competitive markets

		service oriented operations. This implies further, that services exhibit "tradeoffs" while goods do not, given that the increases (decreases) in customer satisfaction are associated with decreases (increases) in productivity for services.		
Gaps to be filled	Establishing effect of organizational performance on customer satisfaction. Exploring other antecedents to and predictors of customer satisfaction.	Establishing the effect of selected intervening and mediating variables on the linkage between customer satisfaction and productivity.	Establishing that performance measurement leads to performance improvement, which leads, in turn, to higher customer satisfaction.	Introducing different intervening and moderating variables on relationship between customer satisfaction and performance; Establishing that the converse obtains, that is, performance affects customer satisfaction.