

**THE IMPACT OF PERFORMANCE CONTRACTING ON
ORGANIZATIONAL PERFORMANCE: A CASE OF KENYA REVENUE
AUTHORITY**

BY

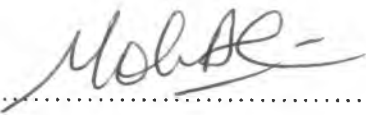
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**A Management Research Project Submitted in Partial Fulfilment of the
Requirement for the Award of the degree of Master of Business
Administration, School of Business, University of Nairobi**

SEPTEMBER 2009

DECLARATION

This is my original work and has not been presented for a degree in any other university.

Signature 

Date ... 13-11-2009

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D61/9012/2005

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

Signature 

Date ... 13-11-2009

for **DR. J.M. MUNYOKI**

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DEDICATION

This project is dedicated to my wife, Sahara Maalim Aftin and Children; Jabir and Munisa.

ACKNOWLEDGEMENTS

I want to give special acknowledgement to my supervisor Dr J.M Munyoki, for adding many ideas to this research project.

I also wish to thank my family and friends for having to cope with my absence most of the times during my studies.

ABSTRACT

This study was initiated to determine the effect of performance contracting on organizational performance at the Kenya Revenue Authority. The respondents included 40 top-level managers and middle level managers. In addition secondary data and materials especially from internal documents such as annual reports, Strategic plan-2003-2008 Strategy was obtained

The study found that; all those who were aware of the performance contract scheme had already signed their contracts with their reporting officers, performance contract scheme has enabled KRA to significantly increase revenue collection, reduce customer turn around time, define and streamline the reporting and operational structure and make employees committed to their work. On the other hand no link was established between performance contract and performance appraisal and reward to good performance. In general, there is high correlation between employees work, organization objectives and performance contract scheme.

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CHAPTER ONE: INTRODUCTION

1.1: Background to the study

Performance contracting has been adopted by governments worldwide as vehicle for articulating clearer definitions of objectives (AAPAM, 2006). Performance Contract (PC) System originated in France in the late 1960s, and was developed with great deal of elaboration in Pakistan and Korea and later in India (OECD, 1997). The system was adopted in developing countries in Africa, such as Nigeria, Kenya, Benin, Burundi, Cameroon, Cape Verde, Congo Vote D'voire, Gabon, the Gambia, Ghana, Guinea, Madagascar, Mali, Mauritania, Niger, Togo, Tunisia and Zaire. In Latin America, the scheme has been used in Brazil, Bolivia, Chile, Columbia, Mexico and Venezuela. Others include Malaysia, Bangladesh, China, India, Korea, Pakistan and Sri Lanka, United Kingdom, USA, Canada, Denmark and Finland among others (SCSTM, 2005).

The improvement of performance is a fundamental part of the continuous process of performance management. The aim of performance management is to maximize high performance which involves taking steps to deal with under performance (Armstrong, 2006). Within the context, Armstrong noted that poor performance may be a result of inadequate leadership, bad management or defective systems of work and observes that poor performance is not necessarily the fault of employees in an organization but failure in such a circumstance will be attributed to the top leadership of the organization which has been unable to establish and develop a well –defined and unequivocal expectation for super performance.

Performance contracting has its origins in performance management which, according to Armstrong (2006), is defined as a systematic process for improving organizational performance by developing and maintaining the performance of individuals and teams. It is a means of getting better results from the organization teams understanding and managing of performance within agreed framework of planned goals, standards and competence requirements.

The Kenya Government Policy paper on performance contracting (2005) indicates that performance contracts belong to a branch of management science also referred to as management contract system and is a free negotiated performance agreement between government acting as the owner of the corporation and the corporation itself. The concept conclusively is noted as

emanating from performance, which according to Armstrong (2006) is the achievement of quantified objectives from which work is achieved. In context performance means both measurement of behaviour and results. These are factors that touch on organizational performance. Barney (2006) observes that organizational performance may be explored based on the notion that an organization is an association of productive assets (including individuals) who voluntarily come together to obtain economic advantages. He observes further that the owners of productive assets will make those assets available to an organization only if they are satisfied with the income they are receiving – and in particular if the total income they are receiving is at least as large as the income they could expect from any reasonable alternative. Against the foregoing background, organizational performance may be defined through comparison of the value that an organization creates using its productive assets with the value that owners of these assets expect to obtain.

Drucker (2006) has observed that an organization can be likened to a transmission that converts all activities into one drive, which is business performance. He notes that “effective business management results in effective business performance” which is regarded as a balance of a variety of needs and goals. This involves the consideration of business objectives whose success will affect the survival and prosperity of the business towards the realization of effective performance in organizations, the Kenya Government in the year 2004 introduced performance contracting scheme in the state corporations. It is noted that the government took the option of performance contracting as a basis to stimulate business performance in the state owned enterprises, which until then were noted as loss making institutions with declining efficiency and therefore failure to sustain them in business.

1.1.2: Kenya Revenue Authority

Kenya Revenue Authority is a state corporation established by an Act of Parliament, Chapter 469 of the laws of Kenya, which became effective on 1st July 1995. The Authority is charged with the responsibility of collecting revenue on behalf of the Government of Kenya. In terms of revenue collection and other support functions, the Authority is divided into the following Departments:

- Customs Services Department

- Domestic Taxes Department
 - i). Domestic Revenue
 - ii). Large Taxpayers Office
- Road Transport Department
- Support Services Department
- Investigations & Enforcement Department

The role of KRA in the economy includes; administration and enforcement of written laws or specified provisions of written laws pertaining to assessment, collection and accounting for all revenues in accordance with these laws, advise on matters pertaining to the administration or and the collection of revenue under written laws, enhance efficiency and effectiveness of tax administration by eliminating Bureaucracy, Procurement, Promotion, Training and Discipline, eliminate tax evasion by simplifying and streamlining procedures and improving tax payer service and education thereby increasing the rate of compliance ,facilitate economic stability and moderate cyclic fluctuations in the economy by providing effective tax administration as an implementation instrument of the fiscal and stabilization policies and be a 'watchdog' for the Government agencies (such as Ministries of Health, Finance, etc) by controlling exit and entry points to the country to ensure that prohibited and illegal goods do not pass through Kenyan borders.

According to the Performance Contracts Steering Committee guidelines (2004), the State Corporations were guided on the purpose of the performance contracts, which is to measure the performance of the management of the State Corporation at the end of a specified appraisal period and on the basis of an objective criterion. The contents of the contracts were accordingly divided into five key parts which include: mission and objectives, commitment and obligations of the state corporation, commitments and obligations of the Government, Frequency of Monitoring the flow of information, and duration of the performance contract. The noted factors served as a guideline to management in the state corporations in the pursuance of the contracts and were all aimed at allowing the institutions to develop and sign their service contracts within the specifications of the scheme.

However, an evaluation of the introduction of performance contracting scheme in Kenya Revenue Authority reveals many challenges faced by the organization. It is noted that with the introduction of the performance contract scheme, the strategic plans were strictly to form the

basis in which agreed performance, targets were to be set. It was also the basis for monitoring and evaluating of performance. Under this requirement it was of necessity for Kenya Revenue Authority to ensure that it operated all the time within its strategic plan provisions. This initiated a strict adherence to the plan and therefore institutionalizing a firm bureaucratic structure that everyone was expected to follow in the organization. The institution similarly faced the challenge of coping with the revised monitoring format in line with the scheme expectation.

The introduction of accountability and transparency in areas that the institution had enjoyed freedom and lack of control in the management of its corporate and operational activities was seen as a challenge by top management. The need to venture into new areas of activity to generate business and enhance profitability in a competitive operational environment was another key challenge and arising from the fact that the major stakeholder in the organization (Government) required sustainable outputs at the maturity of the performance contract period and further enhancement of the continued profitability of the organization.

The lack of existing contract structures to support the direct implementation of the scheme and the wrong perception of the scheme as targeting the management failures, existing bureaucracy at the parent ministry level and lack of concern on the timeliness of planned activities as contained in the targets for the respective organizations, posed as a challenge to the scheme implementation.

1.2: Statement of the Problem

Performance is a function of three factors namely; Environment, Ability and Motivation (Vroom, 1964). Rob (2006) observes that the productivity of an organization is influenced by its ability to maintain a competitive position in its business activities. Accordingly, productivity may be seen as a measure of the quantity and quality of work done as compared to the cost of resources used. It is against the above background that performance contracting was introduced in public enterprises to enhance service performance and organizational improvement.

According to a study done by Oswago, (2006), the performance contract scheme was first pilot tested in state corporations in Kenya in 2004. Not much research has been carried out in this field and there is a noted void in the assessment of the scheme performance in the respective institutions after implementation. As observed by Oswago (2006), the scheme has had an impact on the management of the public enterprises and notes that despite the productivity achievements, the improvement was still way below the actual potential of the institutions. This observation has been rightly confirmed in the year 2007 performance contract scheme performance appraisal review, where no organization participating in the scheme attained the highest excellent rating in terms of performance during the period. The field therefore requires a further research to ascertain the performance factors and assessment of the limitations that could be constraining effective service delivery in the noted public enterprises.

Choke (2006) focused on the perceived link between strategic planning and performance contracting in state corporations and found that top management plays a leading role in ensuring successful implementation of Performance Contract, managers have a high positive perception of PC, managers in public enterprise are largely in favour of the introduction of PC and believe there is a strong link between Performance Contract and strategic plans. Obare (2006) studied the implementation of strategic plans in the public sector and found that there were challenges in the implementation of strategy because employees were not aware of operational strategic plans; there was inadequate financial resources, unsupportive culture, lack of good leadership and political interference. A study by Kiboi (2006) focused on perception of management of performance contracting in state corporations and established that PC helps in clarifying vision and mission of an organisation; Performance Contract has enabled organisations have a reasonable sense of direction, met their performance targets and have kept in pace with emerging trends.

One of the key priorities of the Kenya government on the implementation of public sector reforms was the need to improve service delivery and business growth in the state corporations. The problems that have inhibited the performance of this sector are largely common and have been identified as excessive controls, multiplicity of roles frequent political interference, poor management and outright mismanagement (RBM Guide, 2005).

It is against the foregoing background of poor organizational performance that the Kenya Government introduced the performance contract scheme in state corporations, KRA among them. The study therefore seeks to establish the effect of performance contracting on organizational performance in Kenya Revenue authority. The guiding research question is : what is the effect of performance contracting on organizational performance in Kenya Revenue Authority?

1.3: Objectives of the study

The objective of the study was to determine the effect of performance contracting on organizational performance at the Kenya Revenue Authority

1.4: Research Questions

The study sought to answer the following questions;

- i. What was the level of performance prior to the introduction of performance contracting at the Kenya Revenue Authority?
- ii. To what extent has performance contracting improved performance in KRA?
- iii. In what ways has performance contracting improved organizational performance?

1.5: Significance of the Study

The study would be important to:

- i. Kenya Revenue Authority since the report would provide achievements and or failures of the scheme. Areas of weakness in the scheme would be noted in the study for further management improvement. The employees of the authority as key stakeholders would know the effectiveness of the scheme and hence support it so that they can continue to be retained in the organization.
- ii. Management and staff of other state corporations as it would provide insight on some of the challenges that may be faced in the implementation of PC and how they could avoid them. It would also assist management of state corporations know how they can get the best performance from employees.
- iii. Inspector General of Corporations would be able to monitor and evaluate implementation of performance contracts and advice effective way of administering the contracts.
- iv. Scholars would find it important as the study will increase to the body of knowledge in this area, which within the Kenyan context is still fairly new and requiring further research for exhaustive understanding of the effectiveness of the performance contracting scheme.

CHAPTER TWO: LITERATURE REVIEW

2.1: Introduction

2.2: The Concept of Performance Contracting

Performance management is defined as a strategic and integrated approach to delivering sustained success to organisations through improving the performance of the people who work in the organisations and by developing their capabilities. According to Kumar (1994), performance contract is defined as a Memorandum of Understanding (MOU). MOU is rooted in an evaluation system, which not only looks at performance comprehensively but also ensures improvement of performance by making the autonomy and accountability aspect clearer and more transparent. While OECD (1999), define performance contracts as a range of management instruments used to define responsibilities and expectations between parties to achieve mutually agreed results. Performance Contracts Steering Committee (2005) document sees performance contracting as “a freely negotiated performance agreement between the government acting as the owner of a government agency and the agency itself.” The contract specifies the intentions, obligations, responsibilities and powers of the parties in the contract and addresses economic, social and other tasks to be discharged for economic or other desired gain.

Performance contracting has its origins in performance management which according to Armstrong (2006) is defined as a systematic process for improving organizational performance by developing and maintaining the performance of individuals and teams. It is a means of getting better results from the organization, teams and individuals through understanding and managing of performance within an agreed framework of planned goals, standards and competence requirements. Armstrong (2006) goes further to state that the overall aim of performance management is to establish a right performance culture in which individuals and teams take responsibility for the continuous improvement of business processes, own skills and contributions within a framework provided by effective leadership.

The Kenya Government Policy Paper on Performance Contracting (2005) indicates that performance contracts belong to a branch of management science referred to as management control system and is noted as a freely negotiated performance agreement between government acting as the owner of the corporation and the corporation. The concept emanates from performance which according to Armstrong (2006) is the achievement of quantified objectives

for which work is achieved. In the context, performance means both measurement of behaviours and results.

The contract involves two parties where in an agreement; the parties clearly specify their mutual performance obligations, intentions and responsibilities within the terms of a contract, which is signed on a periodic basis. As stated in the Government Contract policy paper (2005), performance contract seeks to address economic, social or other tasks that an agency will be required to discharge for economic performance or for other desired results. It is noted that the contract agreement organizes and defines tasks so that management can perform them systematically, purposefully and with reasonable probability of accomplishment and satisfaction of the principal agent.

In the context, performance contracts mainly comprises of two major components; the determination of mutually agreed performance targets and time bound review, and evaluation of the periodic performance. As per the framework and practice in the State Corporations, a two level contract is signed; first between the Government and the Chairman of the Board of Directors and secondly between the Board of Directors and the Chief Executive Officer in the organization, (Economic Review Strategy Paper 2003-2007). The Chief Executive Officer (C.E.O) is expected thereafter to facilitate an intra-organization roll out of the contract, which is cascaded immediately to the senior management, middle management, lower management and whole staff as per the organizations functional structure. The annual corporate development plan document in the organization is used as a guideline for the overall departmental targets. Through this process, the performance contract system is extended and spread across operational units in the entire organization, with departments championing their respective goals and targets as per the approved corporate plan for the period.

A firm that is able to generate the expected value determines its level of performance. As Armstrong (2006) points out, a firm achieves normal performance when the value of returns it generates against the resources employed equals the expectation of the owners or below normal performance when it generates is less than the expected value of the returns against the input resource. A firm is therefore able to attain above normal performance, where it has generated a value greater than expected value of the resources employed to realize an economic profit.

Through the operational network established in the scheme, provision of services to the various stakeholders in the organization is introduced and performance will be measured within the defined targets in the strategic plan. This is intended to meet the strategic objectives of the organizations stakeholders. Boddy (2002), notes that all organizations have a wide range of internal and external stakeholders where; their interests are often in conflict because, as groups or individuals, stakeholders are themselves subject to a wide range of influences that condition or shape their views and what they expect of the organizations.

External stakeholders, include suppliers, financiers, central and local government, shareholders and customers. All these groups may influence the organizational activities directly through personal contact or exert pressure indirectly by the use of the press and other media to raise concerns on the operational issues in the organization. Boddy (2002), notes that stake holders, have different and varied expectations from those of the organizations, where the suppliers for example look forward to timely payment of debts by company, adequate liquidity, integrity and public standing of directors. To the Government, the company is expected to adhere to the laws of the country, use the energy and natural resources efficiently, pay taxes, and provide employment for the citizens and effective use of public funds.

The other major stakeholder group is employees, whose interest includes: good compensation and being recognized for their services, job security, sense of meaning and purpose in the job alongside opportunities for personal development. The lenders as stakeholders are interested in, liquidity of the company, character and standing of management, quality of assets available for security, and potential to repay interest and capital as offered on due date (Boddy,2000).

As per the observed variances, stakeholders in organizations are categorized in a power-interest matrix, based on the degree of interest and power which they are perceived to hold at any one given time. Those with both high interest and power stakes are regarded as the 'key players' whom the organization will seek in particular to satisfy at all times.

2.2: Performance contracting and Quality service Improvement

The experience and philosophy of performance contracting is core to the understanding of the scheme as a strategy for improved service delivery. It lays the foundation for its application and basis of use by the different institutions world over. The history of performance contracting is long and according to the Kenya Performance Contracts Steering Committee Sensitization/Training Manual (SCSTM, 2005) it may be followed up against a systematic assessment of its application in various parts of the world.

The first country in Africa to adopt performance contracts scheme was Senegal, where the performance contract idea was widely supported by the public enterprise managers who regarded it as a tool meant to compensate the civil servants for the restriction and non-involvement in commercial activities as imposed on them by the Government. The scheme accorded the officers the opportunity of increased autonomy and decreased outside interference in the management of their corporate activities. To the parent Ministry and the Ministry of Finance respectively, the scheme was seen as a reduction of their operational control and therefore a basis for internal responsibility and accountability of the managers within the respective organizations (Trivedi, 1990).

In Morocco, performance contracting was adopted at a time when the public enterprises committed over 12% of the countries gross domestic product (GDP) in form of subsidies and other support programs. The contract scheme was initiated and signed in 2003 and from then on, the public enterprises have reported improvement in service delivery, cost reduction and greater autonomy for management (SCSTM, 2005).

Elsewhere in the World, the Korean experience is noted as another successful performance contract venture in the public enterprises. Through the scheme, the Korean government adopted the signaling system of performance contracting which placed emphasis on improvement in real productivity, assignment of weights to the targets and incorporation of an incentive system to reward or sanction public enterprise management in case of success or failure to meet targets (Trivedi, 1990).

The Indian Government also adopted a performance contracting system referred to as memorandum of understanding (MOU) in 1987/88. The basis of introduction of performance management in the Indian public enterprises was to address poor performance of the Public Sector Enterprises (PSES), need for autonomy to improve performance, need for greater transparency and accountability and reduction of variety of Government agencies to whom PSES were reporting to and which had conflicting objectives. As cited in the SCSTM (2005) appraisal update, the results of the introduction of performance contracting in India indicated an effective success through realization of target achievement, enhanced autonomy of public enterprises and contribution of the enterprises to the government in terms of dividends and surpluses which were noted to have increased tremendously over time.

Through the noted success examples, the concept of performance contracting as cited in the referred sensitization manual has been implemented in a number of other countries (both developing and developed), with the sole purpose of improving public sector performance. Other countries in Africa that have embraced performance contracting include Benin, Burundi, Cameroon, Cape Verde, Congo Vote D'voire, Gabon, the Gambia, Ghana, Guinea, Madagascar, Mali, Mauritania, Niger, Togo, Tunisia and Zaire. In Latin America, the scheme has been used in Brazil, Bolivia, Chile, Columbia, Mexico and Venezuela. Others include Malaysia, United Kingdom, USA, Canada, Denmark and Finland among others (SCSTM, 2005).

A review of corporate performance from the cited examples in the various countries across world shows that through the arrangement of elaborate system of negotiating, reviewing and evaluation of performance against agreed targets and incentive system, an increased transparency, and accountability and performance efficiency were recorded in the public enterprises. The performance contract scheme was adopted in Kenya in the year 2004 against the background of the noted success of the scheme in the management of both public and private sector organizations in Africa and elsewhere in the world. It is noted that in the economic recovery strategy for wealth and employment creation (2003-2007) policy paper, the Kenya government undertook to introduce performance contracts in State Corporations and statutory boards as part of the initiative to improve the performance and service delivery in the noted government institutions (SCSTM, 2005).

This was an effort by the Government to guide state corporations in performance management, which is defined by Dessler (2005), as a process that consolidates goal setting, performance appraisal and development into a single, common system with the aim of ensuring that institutional performance is in tandem with the company's overall strategic aims. Dessler, further notes that the performance management scheme was geared towards the realization of improvement in the organizations, which were then required to continuously set and relentlessly meet ever-higher quality cost, delivery and availability of goals.

In the performance contract scheme, the state corporations under the performance contract philosophy as pointed out in a Kenya Government seminar paper by Dr. Kobia and Nura Mohammed (The Kenyan experience with performance contracts - 2006) were required to commit themselves to the contract scheme with the expected outcomes in improved performance, decline in reliance on exchequer funding, increased transparency in operations and resource utilization, increased accountability for results, and linking reward on measurable performance. It was also aimed at reducing confusion resulting from multiplicity of objectives, clear apportionment of responsibility for action and improvement in the correlation between planning and implementation while creating a fair and accurate impression on the performance, greater autonomy and creation of enabling legal and regulatory environment (AAPAM, 2006).

The philosophy was adopted by all state corporations, which were expected to develop annual corporate plan strategies, which would serve to guide on the agreed targets and act as a yardstick to assess achievement of goals upon completion of the defined performance period. The annual corporate plans also formed a basis in which performance contracts are negotiated with the principal at the commencement of the new contract period. Within the scheme expectations, the targets are evaluated and agreed upon between the parent ministry and the state corporation based on the strategic plan document. This also provides a basis to evaluate and check on the successful implementation of the corporate strategic plan goals in the state corporation and how the same has influenced the overall improvement in service delivery and performance of the institution during the contract period (SCSTM, 2005).

Inclusion of the Citizens Service Delivery Charter as a performance indicator in the performance contract is one of the key achievements geared towards enhancing delivery of service. As a result of the introduction of PCs, every public institution has developed a charter communicating its

services and service standards to the consumers of its services. These charters specify the quality, quantity, cost and standard of service to be expected from the institutions. They also include remedial mechanisms in the event that a client of a certain service is not satisfied with the service offered by the institution and in case an agency does not live up to the commitments in its charter (SCSTM, 2005). This has empowered the public to fight corruption in the public institutions because government has sensitized the public to the effect that good and efficient service by government officers is their inherent right.

2.3. The performance contracting objectives

The Kenya Performance Contracts Steering Committee Sensitization/ Training Manual (2005) lists the objectives of performance contracting as improvement of service delivery to the public by ensuring that top level managers were accountable for results, reversing the decline in efficiency and ensuring that resources are focused on attainment of key national policy priorities of the Government. Similarly, it was aimed at institutionalizing a performance oriented culture in the public service through introduction of an objective performance appraisal system (SCSTM, 2005).

In this context, as observed by Allan (2004) that the performance contract initiative was intended to review the structured management principles towards good discipline, specific and detailed job descriptions, frequent and accurate reporting of performance, pay and promotion based on merit, clearly defined hierarchy of superiors and subordinates, enforcement of personal responsibility and accountability, and the search and correction of errors is supported. Through this approach, the institutions are expected to direct all their resources towards the delivery of targeted services and maintenance of enhanced productivity. The improvement on the quality and productivity was seen as results based management factor that was necessary for growth in investment and internal self-reliance of the country.

2.4: Organization performance

The Kenya Revenue Authority (KRA) collects a number of taxes and duties, including: value added tax, income tax and customs. Since KRA's inception, revenue collection has increased dramatically, enabling the government to provide much needed services to its citizenry like

free primary education and HIV treatment to all. Over 90% of annual national budget funding comes from local taxes collected by the KRA.

In the third quarter of the year 2008, KRA missed its targets by 5.1 percent; this was as a result of the economic hardship experienced in the country at the beginning of the year 2007. However the trend has been reversed this financial year. Realised report on performance indicate that revenue collection is growing at a faster rate than that of the economy at 13.4 percent, with April's 2008 collection standing at Sh54 billion compared to Sh44 billion in 2007. The Customs department collected Sh1.5 billion above target and the Domestic Taxes Department also exceeded their target by (about) a billion (The standard 7th May 2009).

The taxman estimates that revenue collection for this year (2009) could grow to at least Sh550 to Sh600 billion against a target of Sh493 billion. In order to achieve the target the organization is looking into ways on how to increase efficiency within the Northern Corridor and to fully implement the 24-hour working system at the port to operate at its optimum.

Kenya Revenue Authority also introduced a new series of number plates in a bid to crackdown on unscrupulous motor vehicle dealers, the move was necessary after the Authority discovered that importers of vehicles were using number plates initially meant for motor cycles, tractors and other heavy machinery to attract clients. Registration numbers are as follows for motorcycles: KMCA 001A, three wheelers; KTWA 001A, heavy machinery; KHMA 001A and tractors KTCA 001A respectively.

2.5: Conceptual Framework

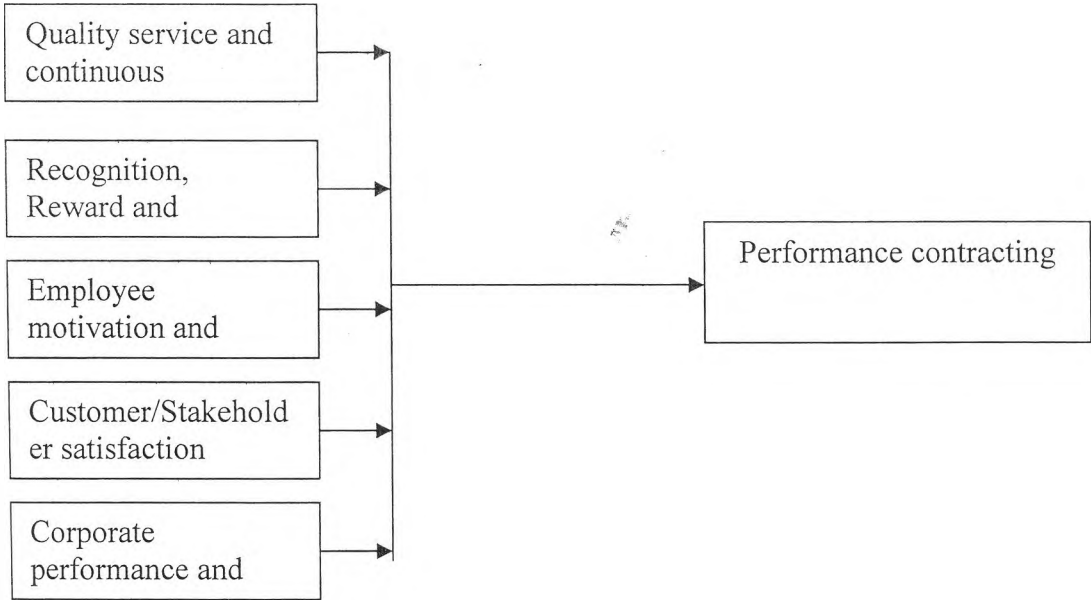
The conceptual framework of the project is based on the assumption that the effective performance and efficiency of state corporations in Kenya was hampered by known factors of limited accountability procedures and excessive bureaucratic controls. Lack of detailed accounting procedures, service controls and effective measurement criteria were observed as issues that influenced a decline in services and misuse of resources in the state corporations. The introduction of the performance contracts in the management of state corporations was accordingly seen as an initiative from the Government aimed at improving performance and realization of effective management practices geared towards making enhancement of service

delivery in the state corporations. The conceptualization of this study is based on the need for appraisal of performance contracting scheme, its introduction and implementation as a strategy of improved service delivery in Kenya Revenue Authority.

The independent variable is performance contracting while the dependent variable is organization performance which are measured in terms of; quality service and continuous improvement, Recognition, Reward and Performance, employee motivation and commitment, customer/Stakeholder satisfaction and corporate performance and profitability

The conceptual framework as summarized in figure 2.1 demonstrates this.

Figure 2.1 Conceptual Framework



Independent Variable

Dependent Variables

CHAPTER THREE: RESEARCH METHODOLOGY

3.1: Research Design

The study was carried through a descriptive survey research design. This research was appropriate because of the cross-sectional nature of the data that was collected, which is largely quantitative and descriptive in nature. In adopting this design, the study sort to analyse the impact of performance contract scheme on organization growth and service improvement at Kenya Revenue Authority that had been chosen to represent state corporations. This research design is usually appropriate where data is collected from a sample and findings used to infer the characteristics of the population. It is therefore used when what is needed is a systematic description, which is accurate and factual as possible. The design has been used by researchers in similar past studies (Gakuru, 2005; Macharia, 2001; Mwangi, 2002).

3.2 Sample Size and Design

A sample of forty (40) top-level managers and middle level managers was drawn by way of random sampling technique. The targeted employees were those located at head office in Nairobi. The sample comprised of employees from various departments and was deemed to be representative of the entire Kenya Revenue Authority.

3.3: Data collection

Data was collected through semi-structured questionnaire consisting of three sections. Section one was designed to obtain general information on demographic and respondents profile. Section two consisted of questions on awareness of performance contract scheme and section three on impact of performance contract scheme. The questionnaires were administered by “mail survey” method. The respondents included 40 top-level managers and middle level managers. The respondents were drawn by way of random sampling technique. In addition secondary data and materials especially from internal documents such as annual reports, Strategic plan-2003-2008 Strategy was obtained.

3.4: Data Analysis

Considering the kind of data intended as per the questionnaire, a conceptual and qualitative content analysis was the best-suited method. Nachmias & Nachmias (1996) define content analysis as a technique for making inferences by systematically and objectively identifying specified characteristics of messages and using the same approach to relate trends. Mbogo (2003) and Nyamweya (2004) who employed this kind of approach argued that it is useful in gaining fresh material in even what was thought to be unknown.

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

4.1: Introduction

This chapter presents the analysis and findings of the study. Data was collected from 40 top-level managers and middle level managers. The findings are presented in percentages and frequency distributions, mean and standard deviations.

4.2: Profiles of the respondents

4.2.1: Response rate

A total of 40 questionnaires were issued out. The completed questionnaires were edited for completeness and consistency. Of the 40 questionnaires used in the sample, only 35 were returned. The returned questionnaires' represented a response rate of 87.5%, which the study considered adequate for analysis.

4.2.2: Position in the organization

The respondents were distributed amongst the four categories as shown in table 4.1

Table 4.1: Position in the organization

	Frequency	Percent	Cumulative Percent
Unionizable	6	17	17
Lower Management	8	23	40
Middle management	10	28	68
Senior Management	11	32	100
Total	35	100	

Senior management contributed 32%, middle management 28%, lower management 23% and unionizable at 17%.middle and senior management levels constituted 60% of the respondents.

4.2.3: Length of Service with organisation (years)

Length of service in the organization would indicate how well the respondents were conversant with the change which has taken place in the organization over a period of time. The respondents were asked to indicate the length of service with the organization as shown in table 4.2.

Table 4.2: Length of Service with organisation (years)

	Frequency	Percent	Cumulative Percent
5 to 10 years	5	15	15
11 to 15 years	23	65	80
16 to 20 years	5	15	95
Over 20 years	2	5	100
Total	35	100	

The results presented in table 4.2, the number of years of service in the organization varies from a period of 5 years to over 20 years. 5% of the respondents had worked in their respective organizations for over 20 years, 15% had worked for a period of 16 to 20 years, majority 65% had worked for a period of 11 to 15 years and 15% had worked for 5 to 10 years

4.2.4: Years worked in the current department

The respondents were asked to indicate the length of service in the current department. The results as shown in table 4.3

Table 4.3: Years worked in the current department

	Frequency	Percent	Cumulative Percent
Less than 2 years	3	6.5	6.5
4to 6 years	19	41.3	47.8
7to 9 years	23	50.0	97.8
Over 10 years	2	2.2	100.0
Total	35	100.0	

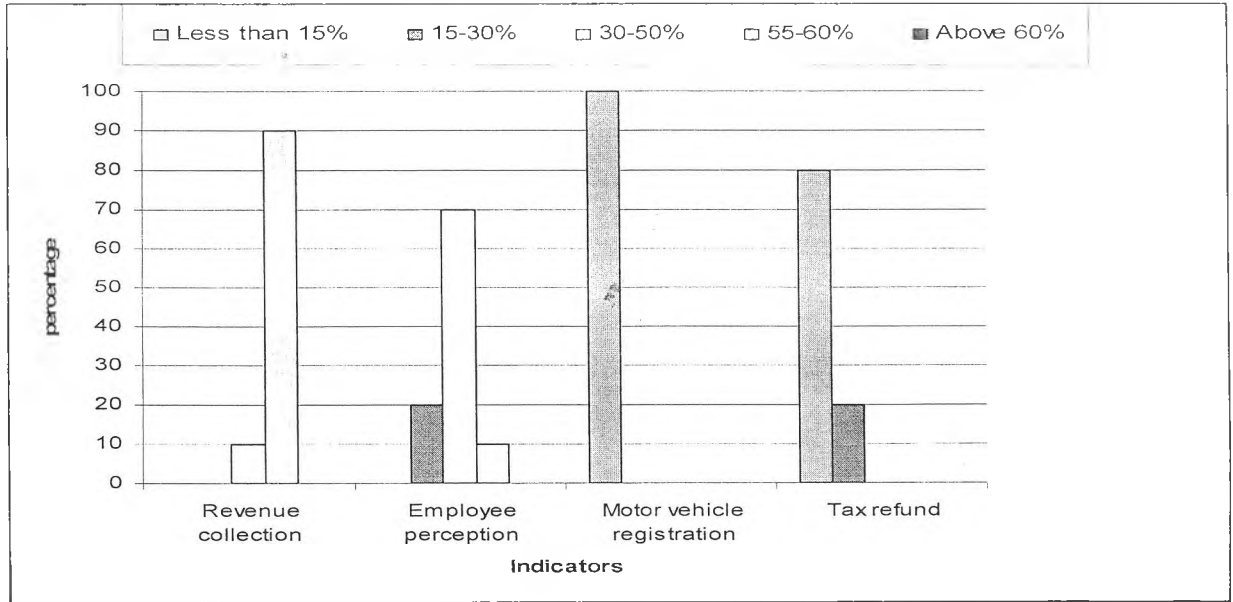
As shown in table 4.3, the number of years of service in the current organisation varies from a period of less than 2 years to over 10 years. 2.2% of the respondents had worked in their current department for over 10 years, 50% had worked for a period of 7 to 9 years, 41.3% had worked for a period of 4 to 6 years and 6.5% had worked for less than 2 years Majority of the respondents have worked in their current departments over 4 years.

4.3: Performance prior to the introduction of performance contracting

4.3.1: Rating of performance

The respondents were to rate the performance of Kenya Revenue Authority on predetermined key indicators before the signing of performance contract. The findings are shown in figure 1.

Figure 1: Rating of performance indicators



The findings in figure 1 show that, 90% of the respondents rated revenue collection at 55-60% of the set target, 70% rated employee perceptions at 30- 50% of the target, all the respondents rated motor vehicle registration at less than 15% of the target and 80% rated tax refunds at less than 15% achievement of the target. This shows that all the indicator variables were rated at an average or below average prior to the signing of performance contract hence the need to sign the contract.

4.3.2: Major causes of the above performance

The performances above were attributed to various factors within and outside the corporation. Specifically low revenue collection rate was attributed to lack of clear set targets, lack of accountability amongst the employees, tax evasion amongst tax payers and long procedures on revenue remittance. Motor vehicle registration was mainly affected by the long procedures of registration at the port as well as transfer procedures. Large tax payers were not being refunded due to long procedures, improper filling of claims, however this has not been significantly resolved.

4.4: Awareness of Performance Contract Scheme

The awareness of performance contract scheme is core to the understanding of the scheme as a strategy for improved service delivery. This section covers findings from the specific questions posed to the respondent's to determine the extent to which performance contract scheme awareness was carried out.

The respondents were asked to state whether they were aware of the performance contract scheme. 91% of the respondents were aware of performance contract scheme while 9% were not aware of the same. The awareness rate is higher enough to show that the management sensitize the employees about the scheme during the initial stages. Of those who were aware of the performance contract scheme, all had already signed their contracts with their reporting officers. Performance contracting had been in existence in most departments for a period of 3 to 4 years as indicated by 100% of those who had signed the contract. This shows that the scheme was introduced to all the departments at the same time.

4.4.1: Relationship between performance contract scheme and work at various departments

The objectives of performance contracting were reverse the decline in efficiency and ensuring that resources are focused on attainment of key national policy priorities of the Government. The respondents were asked to rate the relationship between performance contract scheme and work at various departments with respect to the following predetermined statements. The findings are shown in table 4.4.

Table 4.4: Relationship between performance contract scheme and work at various departments

	Frequency	Percent
Has enhanced performance	32	100
Has influenced employee commitment to work	30	94
Has clearly defined and streamlined the reporting and operational structure	32	100

As shown in table 4.4, performance contract scheme has enabled Kenya revenue authority to significantly enhance performance, define and streamline the reporting and operational structure and make employees committed to their work. In general, there is high correlation between employees work and performance contract scheme.

4.4.2: Training of employees during the scheme implementation

Training is one of the most pervasive methods of enhancing the productivity of individuals and communicating organizational goals. Given the importance of and potential impact of training on organizations and the costs associated with the development and implementation of training, it is important that the management and staff have a better understanding of the relationship between training and performance contract scheme. The respondents were asked to state whether they were taken through training process during the implementation of the scheme. The findings shows 91% of the respondents were taken for training during the implementation of the scheme. While 9% were not trained. It therefore shows that management had put in place the necessary requirements for the effective implementation of the scheme.

4.5: Impact of performance contract scheme

Performance contract scheme aims at getting better results from the organization teams, understanding and managing of performance within agreed framework of planned goals, standards and competence requirements.

Table 4.5: Extent to which various variables influence performance contract implementation

Factors	Mean	Std. Dev
Employees are normally trained on performance contract	4.1739	0.6767
Target setting involves both employees and immediate supervisor	4.0652	0.7118
There is ownership of the performance contract amongst the employees	4.0652	0.7717
There is change in the management approach to performance after the implementation of performance contract	3.5652	1.2046
Employees commitment to work has improved after the implementation of PC	4.1304	0.8329
Customer turn around time has reduced	4.2609	0.8282
Customers complaints has reduced	3.4348	1.2229
Organizational culture has been transformed after implementation of performance contract	3.8478	0.8936
A link has been established between performance contract and performance appraisal	2.9348	1.4047
Organization has linked reward to good performance	2.8261	1.1412
Employees promotions are the based on performance	3.0000	1.1352

(Table 4.5 continued)

Performance contracting has matched employees to jobs (no ghost workers)	3.1522	1.0742
Performance contracting has reduced recurrent cost	3.8696	0.9799
Performance contracting is a tool of enhanced efficiency	3.5435	1.0478
Revenue collection has improved	4.3478	0.7368
Performance contracting has streamlined reporting channels	4.2391	0.7050
Performance contracting has reduced duplication of duties	3.5435	1.2239
Performance contracting allows for continuous improvement	4.1087	1.0160
Performance contracting has led to staff motivation	3.7609	1.0787
Performance contracting has led to development of citizen service charter	3.5870	1.0451
There is a link between performance contracting and the annual work plan	3.9348	0.8794
Since adoption of PC, KRA has been rated highly through customer satisfaction surveys.	3.6522	0.8998
Organization has communicated and institutionalised sanctions to be applied in cases of poor performance.	3.3913	0.9770

The respondents were asked to state the extent to which various variables influence performance contract implementation. The results are shown in table 4.5. From the findings to a great extent; Revenue collection has improved (mean of 4.3478), performance contracting has streamlined reporting channels (mean of 4.2391), customer turn around time has reduced (mean of 4.2609), employees commitment to work has improved after the implementation of Performance Contract (mean of 4.1304), employees are normally trained on performance contract (mean of 4.1739), Performance contracting allows for continuous improvement (mean of 4.1087), target setting involves both employees and immediate supervisor (mean of 4.0652), There is ownership of the performance contract amongst the employees (mean of 4.0652).

On a moderate extent; There is a link between performance contracting and the annual work plan (mean of 3.9348), Performance contracting has reduced recurrent cost (mean of 3.8696), Organizational culture has been transformed after implementation of performance contract (mean of 3.8478), Since adoption of PC, KRA has been rated highly through customer satisfaction surveys (mean of 3.6522), there is change in the management approach to performance after the implementation of performance contract (mean of 3.5652), Customers complaints has reduced (mean of 3.4348), organization has communicated and institutionalised sanctions to be applied in

cases of poor performance (mean of 3.3913) and employees promotions are the based on performance (mean of 3.000)

Performance contract implementation has influence to the least effect on the following variables; a link has been established between performance contract and performance appraisal (mean of 2.9348), organization has linked reward to good performance (mean of 2.8261)

In general the most important improvement brought about by performance contracting were; revenue collection, streamlining reporting channels, reduction in customer turn around time and employees commitment to work has improved

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0: Introduction

In this section we discuss the main findings, draw conclusions and make recommendations.

5.1 Summary

The objective of the study was to determine the effect of performance contracting on organizational performance at the Kenya Revenue Authority. To implement performance scheme contract, an organization must clearly specify their mutual performance obligations, intentions and responsibilities within the terms of a contract, which is signed on a periodic basis. This involves developing performance contracts for all employees, document processes and procedures, and providing records as evidence that the targets were agreed upon by both parties signing the contract and the due processes are being followed.

Overall, staffs were a ware of performance contract scheme. Higher rate of 91% indicated that management sensitize the employees about the scheme during the initial stages. The further translated in to easy adoption of the performance contract by employees and

All the respondents who had signed performance contract scheme were in agreement that performance contract scheme have clearly defined and streamlined the reporting and operational structure and enhanced performance. Notable was a significant 6% of the respondents who expressed reservation that performance contract scheme has not influenced employee commitment to work. It is therefore imperative that the management listen to the views of these staff.

The study indentified the following as greatest impact of performance contract scheme on performance of Kenya Revenue Authority; Revenue collection has improved, customer turn around time has reduced, employees are normally trained on performance contract, target setting involves both employees and immediate supervisor, there is ownership of the performance contract amongst the employees, employees commitment to work has improved after the implementation of Performance contract, performance contracting has streamlined reporting channels and performance contracting allows for continuous improvement.

On the other hand two statements were identified as having small impact on the performance of Kenya Revenue Authority after the implementation of the scheme, these were; link has been established between performance contract and performance appraisal and organization has linked reward to good performance.

5.2: CONCLUSION

The study concluded that the performance contract scheme has improved performance at KRA. This conclusion is supported with the respondents' views that revenue collection has improved and customer turn around time has reduced. From the results of the study, it was concluded that performance contract scheme have clearly defined and streamlined the reporting and operational structure and enhanced performance.

The study also concluded that there was no link between performance contract and performance appraisal as well as reward to good; as such the gain made by the implementation of the scheme may be short lived. The study further concluded that all the twenty one variables under study had varying effects on the performance of KRA, with improvement on revenue collection ranked top followed with streamlining of reporting channels, reduction in customer turn around time and organization has linked reward to good performance ranked lowest of the factors.

5.3: RECOMMENDATIONS

5.3.1: Recommendation to policy makers

Performance contract should be linked to rewards which are defined on the policy guide on rewards. Currently, the findings indicate that the contract policy do not have links on rewarding exemplary performance. There is an urgent need for KRA and other state corporations who have adopted performance contract to put in place policy guide on reward. Once the policy is in place, employees who meet and exceed their performance targets should be rewarded.

5.3.2: Recommendation for Further Research

Further research work is recommended in looking at the scheme in other Parastatals organizations who have implemented the performance contract scheme and the results be compared. The results of the study also found out that there was no link between performance

contract and performance appraisal as well as reward to good performance. Further research is necessary to establish the reasons for this behaviour

5.4: LIMITATIONS

This study had the limitation of the respondents and time. For this reason, most of the respondents were drawn from the head office in Nairobi. Some of the respondents were also not willing to share information about the scheme freely.

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APPENDICES

APPENDIX 1

QUESTIONNAIRE

SECTION 1: DEMOGRAPHIC AND RESPONDENTS PROFILE INFORMATION

Please give answers in the spaces provided and tick (✓) the box that matches your response to the questions where applicable

1. Gender? Male Female
2. Which of the following best describe your current position in the organization?
Union sable Lower Management Middle Management Senior Management
3. How long have you worked in the organization?
0-5 to 10years 11 to 15 years 16 to 20 years over 20 years
4. How many years have you worked in your current department?
Less than 2 years 4 to 6 years 7 to 9 years Over 10 years
5. How would you rate the performance of KRA prior to the implementation of performance contract on the following indicators?

Indicators	Rating			
	Less than 15%	15-30%	30-50%	Above 50%
Revenue collection				
Employee perception				
Motor vehicle registration				
Tax refund				

6. Explain your ratings
.....
.....

SECTION 2: AWARENESS OF PERFORMANCE CONTRACT SCHEME

7. Are you aware of the Performance Contract scheme? Yes No

8. Have you signed performance contract? Yes No

If yes how long has performance contracting been in place for your organization?

- Less than 1 year
- 1-2 years
- 3 – 4 years
- 5 years and above

9. Which of the following statement is correct about performance contract scheme with respect to your work? (Tick as applicable)

- Has enhanced performance
- Has influenced employee commitment to work
- Has clearly defined and streamlined the reporting and operational structure

10. Were you taken through training during the scheme implementation?

Yes No

If the answer above is No, how did you learn about performance contract?

SECTION 3: IMPACT OF PERFORMANCE CONTRACT SCHEME

11. Please indicate, by scoring in the 1-5 point scale, the extent to which you agree with each of the following statements with respect to impact of performance contract scheme at Kenya Revenue Authority. Use the following key:

5 - Very Great extent

4 – Great extent

3 - Moderate extent

2 - Small extent

1 - Not at all

Statement		<i>Very Great extent</i>	<i>Great extent</i>	<i>Moderate extent</i>	<i>Small extent</i>	<i>Not at all</i>	<i>Not applicable</i>
		5	4	3	2	1	0
(i)	Employees are normally trained on performance contract						
(ii)	Target setting involves both employees and immediate supervisor						
(iii)	There is ownership of the performance contract amongst the employees						
(iv)	There is change in the management approach to performance after the implementation of performance contract						
(v)	Employees commitment to work has improved after the implementation of PC						
(vi)	Customer turn around time has reduced						
(vii)	Customers complaints has reduced						
(viii)	Organizational culture has been transformed after implementation of performance contract						
(ix)	A link has been established between performance contract and performance appraisal						
(x)	Organization has linked reward to good performance						
(xi)	Employees promotions are the based on performance						
(xii)	Performance contracting has matched employees to jobs (no ghost workers)						
(xiii)	Performance contracting has reduced recurrent cost						

Statement		<i>Very Great extent</i>	<i>Great extent</i>	<i>Moderate extent</i>	<i>Small extent</i>	<i>Not at all</i>	<i>Not applicable</i>
		5	4	3	2	1	0
(xiv)	Performance contracting is a tool of enhanced efficiency						
(xv)	Revenue collection has improved						
(xvi)	Performance contracting has streamlined reporting channels						
(xvii)	Performance contracting has reduced duplication of duties						
(xviii)	Performance contracting allows for continuous improvement						
(xvix)	Performance contracting has led to staff motivation						
(xx)	Performance contracting has led to development of citizen service charter						
(xxi)	There is a link between performance contracting and the annual work plan						
(xxii)	Since adoption of PC, KRA has been rated highly through customer satisfaction surveys.						
(xxiii)	Organization has communicated and institutionalised sanctions to be applied in cases of poor performance.						
(xxiv)	Clear outline of expected performance outputs/results level led to expected performance efficiency in the organization.						
(xxv)	A performance evaluation system to evaluate performance has been developed and communicated to all employees.						
(xxvi)	Organizational culture adopted is supportive of performance contract.						
(xxvii)	Quality service and continuous improvement an integral part of the scheme.						

10) What other performance contracting factors not mentioned above has had an impact on organizational performance in KRA?

THANK YOU

APPENDIX 2

LETTER OF INTRODUCTION

M. A. Mohamed
P. O Box 19463-00100
NAIROBI,

Kenya Revenue Authority
P.O BOX 30296
NAIROBI.

Dear Sir/Madam,
RE: Collection of Data

I am a postgraduate student at the University of Nairobi, at the School of Business. As part of my course work assessment. I am required to submit a management research project. In this regard, am undertaking a research on the impact of performance contract scheme on organization growth and service improvement.

This is to kindly request you to assist me collect the data from your organization on the same. The information you provide will be used exclusively for academic purposes.

My supervisor and I assure you that the information you give will be treated with strict confidence. A copy of the final paper will be availed to you upon request.

Your assistance will be highly appreciated.

Thank you in advance.

Yours Sincerely,

M.A. Mohamed

MBA Student

Dr. J.M Munyoki

Supervisor