PERFORMANCE CONTRACTING AND STRATEGY IMPLEMENTATION IN COMMERCIAL STATE CORPORATIONS IN KENYA

BY

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DECLARATION

This research project is my original work and has not been submitted for a degree in any other University.

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DEDICATION

This research paper is dedicated to my parents whose endurance and sense of survival gave me the courage and will power to continue studying to the highest possible academic level. I dedicate this research to my husband, my two daughters and son. Above all, I dedicate all to the Almighty God for showering me with his mighty blessings during the entire MBA process.

ABSTRACT

This study sought to determine the influence of performance contracting on strategy implementation in commercial state corporations in Kenya. Performance contracting is a management process in which responsibilities and expectations between the government and a public agency are defined. The contract establishes general goals for the agency, sets targets for measuring performance and provides incentives for achieving these targets. It controls the outcome rather than the process. The objective of the study is to identify the relationship between performance contracting and strategy implementation. The study used descriptive survey design. The target population for this study was 31 commercial State Corporations in Kenya as presented in the SCAC guidelines. Sample of 20 respondents one from each organization was found ideal. 13 commercial state corporations responded. Data were analyzed through descriptive statistics and Pearson correlation analysis. The findings were that the cascading of the performance among staff at various levels and in the organization functions sample mean was 85 while that of implementing strategy was found to be 85 and 75 during the previous and the current strategic plan period respectively. The relationship between the two variables was negative during the previous strategic plan period and negative during the current strategic plan period. This was so because some of the organizations had just began implementing the current strategic plan. The study thus discloses that though there was a negative relationship between cascading of performance contract and strategy implementation other aspects of performance contracting need to be studied to determine their influence to strategy implementation in the Commercial State Corporations.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

A performance contract is a management tool used to define responsibilities and expectations between parties to achieve mutually agreed results. A Performance Contract is an agreement between a government and a public agency which establishes general goals for the agency, sets targets for measuring performance and provides incentives for achieving these targets. It controls the outcome rather than the process. It is useful for articulating clearer definitions of objectives and supporting innovative management, monitoring and control methods and at the same time imparting managerial and operational autonomy to public service managers. It is therefore a management tool for ensuring accountability for results by public officials, because it measures the extent to which they achieve targeted results. The objective of performance contracting is the control and enhancement of employees' performance and thus the performance of the whole institution.

The commercial state corporations are government agencies. They government has 100% or more than 50% shareholding. The agencies have contracts with the government and their performance is directed and monitored by the government. Boards of directors act as monitors hired by shareholders over executives. The commercial state corporations are state enterprises. State corporations are established by an Act of parliament. Commercial state enterprises were established on the expectation that they were to earn a surplus to accomplish other societal goals, produce goods and services deemed necessary for development, engage in projects which require large capital outlay, are necessary for development but are unattractive to the private sector and to provide direction, regulation and support to the commercial enterprises and act as a consumers watchdog.

1.1.1 Strategy Implementation

A sound strategy has to be implemented through translating plans into action. Thompson et al. (2007) argue that prescribing new policies and operating procedures act to facilitate strategy execution in three ways: one by instituting new policies and procedures to provide top-down guidance regarding how certain things now need to be done. Two, policies and procedures help to enforce needed consistency on how in particular strategy-critical activities are performed in geographically scattered operating units and lastly, well developed policies and procedures promote the creation of a work climate that facilities good strategy execution. Managerial efforts to identify and adopt best practices are a powerful tool for promoting operating excellence and better strategy execution. Once the policies, procedures are crafted and managerial effort provided, the organization will require state-of-the-art support systems that will form the basis for competitive advantage if they give firm capabilities which are not easily matched by the competitors. Support systems will further include information systems, performance tracking and controls in five broad areas of customer data, operations data, employee data, supplier, partner, collaborative ally data and financial performance data. A properly designed reward system will align the well being of organization members with their contributions to strategy execution and the achievement of organizational goals (Thompson et al. 2007).

Mintzberg et al. (1999) indicate that strategy implementation is composed of a series of activities which are primarily administrative. Performance measurement and management development are enmeshed in a system of control that must be directed towards the desired results for the organization. Strategy implementation is dependent on the planning and evaluation of the achievements.

1.1.2 Performance Contracting

Performance Contracting is a branch of management science referred to as Management Control Systems and is a contractual agreement to execute a service according to agreed-upon terms, within an established time period, and with a stipulated use of resources and performance standards.

Performance contracting is one element of broader public sector reforms aimed at improving efficiency and effectiveness, while reducing total costs (Domberger, 1998). A performance contract constitutes a range of management instruments used to define responsibilities and expectations between parties to achieve mutually agreed results.

It is a useful tool for articulating clearer definitions of objectives and supporting innovative management, monitoring and control methods and at the same time imparting managerial and operational autonomy to public service managers. It is therefore a management tool for ensuring accountability for results by public officials, because it measures the extent to which they achieve targeted results (Greer et al., 1999).

Kumar (1994) defines performance contract as a Memorandum of Understanding (MOU). MOU is rooted in an evaluation system, which not only looks at performance comprehensively but also ensures forces improvement of performance managements and industries by making the autonomy and accountability aspect clearer and more transparent. OECD (1999) defines performance contract as a range of management instruments used to define responsibility and expectations between parties to achieve mutually agree results. The objective of performance contracting is the control and enhancement of employees' performance and thus the performance of the whole institution.

The government adopted performance contracting in the public service in order to ensure that there is reduction or altogether elimination of reliance on exchequer funding for government agencies, which are expected to generate revenue or make profit and also compel the agencies to give a return to the shareholders by paying dividends or surplus, ensure that parastatals improve performance to deliver quality and timely services to the citizen and instill a sense of accountability and transparency in service delivery and the utilization of resources (RBM Guide, 2005).

The introduction of performance contracting in Kenya in 2003 was geared towards several expected outcomes; improved performance, decline in reliance on Exchequer funding, increased transparency in operations and resource utilization, increased accountability of results, linking reward on measurable performance, reduced confusion resulting from multiplicity of objectives, clear apportionment of responsibility for action, improvement in the correlation between planning and implementation, create a fair and accurate impression on the performance, achievement of greater autonomy and creation of enabling legal and regulatory environment (GOK, 2001). Implementation of the Process of Performance Contracting began in 2004 in state corporations. The government made a decision to introduce PC in state corporations on a pilot basis in 2004. Sixteen State Corporations signed the PC's by December 2004. The criteria for selecting the pilot companies included representation of diverse sectors and corporations with Strategic plans. Following the success in implementing performance contracts in state corporations, the government extended the process to Public Service beginning with Permanent Secretaries and accounting officers. Further, in April 2005, Government decided to place the management of 175 Local Authorities on Performance Contracts.

1.1.3 Public Sector in Kenya

The performance of the Public Sector in Kenya had been consistently falling below the expectations of the public. The decline is associated with excessive controls, multiplicity of principles, frequent political interference, poor management and outright mismanagement. The public sector has become a bottleneck to the overall development of Kenya.

The reform initiatives targeting performance improvement and management in the public service were required, thus introducing the third phase of the public sector reforms guided by Economic Recovery policy direction (DPM, 2004). In the Economic Recovery Strategy for Wealth and Employment Creation (ERS) 2003-2007 policy document, the government accords high priority to economic recovery and improving the performance of public service to deliver results to the people.

In the Economic recovery strategy for wealth and employment creation (2003-2007), the Government outlines it's commitment to improve performance, corporate Governance and management in the public service through the introduction of Performance Contracts.

The objectives of introducing performance contracts in Kenya were to improve service delivery to the public by ensuring the top–level managers are accountable for results, reverse the decline in efficiency and ensure that resources are focused on attainment of key national policy priorities of the government projects, institutionalize performance oriented culture in the public service through introduction of an objective performance appraisal system, measure and evaluate performance, link reward to measurable performance, facilitate the attainment of desired results, instill accountability for results at the highest level of the government, ensure that the culture of accountability pervades all levels of the government machinery and strengthen and clarify the obligation required of the government and its employees in order to achieve agreed target (GOK, 2001).

1.1.4 Commercial State Corporations in Kenya

The commercial state corporations are state enterprises expected to generate revenue or make profit. State enterprises were established include the expectation that they were to earn a surplus to accomplish other societal goals, produce goods and services deemed necessary for development, engage in projects which require large capital outlay, are necessary for development but are unattractive to the private sector and to provide direction, regulation and support to the commercial enterprises and act as a consumers watchdog. The government of Kenya has encouraged the co-existence of private and pubic enterprises to enable it achieve its key objectives as enshrined in the constitution at independence of eradicating poverty, ignorance and disease.

Karanja (2004) emphasizes that whereas the private enterprise has entrepreneurial roots, public corporations are created by some higher controlling authority with multiple and competing interests. The purpose and objectives of the state enterprise is defined by that higher controlling authority who also provide the operating resources on which it depends. In the past most of these commercial state corporations have been heavily relying on state funding instead of generating the expected revenues. Most of the commercial state corporations made losses, lacked accountability and transparency in service delivery and the utilization of resources.

Decision making in the public sector is a political process Karanja (2004). This makes attainment of simple objectives a time consuming and tedious process not worthy devoting some level of resources. Challenges of strategy implementation abound due to the fact that managing the implementation and execution process is an operations oriented activity which aims at making things happens to support core business activities in a strategy supportive manner. It is easily the most demanding and time consuming part of the strategy management process. The process of converting strategic plans into actions and results tests a manager's ability to direct organizational change, motivate people, build and strengthen company competencies and competitive capabilities. It also tests the ability to create and nurture a strategy supportive work climate in executing the strategy proficiently together with initiatives, which are launched and managed from many organizational fronts. As a result of all these initiatives, many institutional and operational challenges are bound to be faced by any organization whether in commercial or public sector (Thompson Strickland and Gamble, 2008).

1.2 Research Problem

Performance Contracts has been acclaimed as an effective and promising means of improving the performance of public enterprises as well as government departments. A Performance Contract is an agreement between a government and a public agency which establishes general goals for the agency, sets targets for measuring performance and provides incentives for achieving these targets.

The success of Performance Contracts in such diverse countries as France, Pakistan, South Korea, Malaysia, India, and Kenya has sparked a great deal of interest in this policy around the world. A large number of governments and international organizations are currently implementing policies using this method to improve the performance of public enterprises in their countries. Performance Contracts represent a state-of-the-art tool for improving public sector performance. They are now considered an essential tool for enhancing good governance and accountability for results in the public sector.

The government adopted performance contracting in the public service in order to ensure that there is reduction or altogether elimination of reliance on exchequer funding for government agencies, which are expected to generate revenue or make profit. It was also aimed at compelling the agencies to give a return to the shareholders by paying dividends or surplus, ensure that parastatals improve performance to deliver quality and timely services to the citizen and instill a sense of accountability and transparency in service delivery and the utilization of resources (RBM Guide, 2005).

Previous studies conducted on performance contracting have concentrated on the implementation of performance contracting (Ogoye, 2002) while one study has tackled the general impact of performance contracting in state corporations (Korir, 2006). However, no study has been done in Kenya so far to correlate performance contracting with strategy implementation in the commercial state corporations in Kenya.

A knowledge gap therefore exists regarding the effect of performance contracting on strategy implementation in commercial state corporations. The purpose of this research was to determine the effects of performance contracting on strategy implementation in commercial state corporations.

What is the influence of performance contracting on strategy implementation in the commercial state corporations in Kenya?

1.3 Research Objectives

The research objective guiding this study is to determine the influence of performance contracting on strategy implementation in the commercial state corporations in Kenya.

1.4 Value of the Study

The study will be used by academicians when carrying out research in related fields of study. The findings of the study can be compared with the influence of performance contracting in other sectors.

The findings of the study will be useful to the government in making policy decisions in the implementation of performance contracting. The findings can be used to draw conclusions on the influence of performance contracting in other state corporations.

In addition the study will be useful to the stakeholders in commercial state corporations in sensitizing them of the influence of performance contracting on strategy implementation and in decision making. The findings will help the Chief Executive Officers of state corporations in using performance contracting in an effective way to maintain a competitive edge in the market.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter covers the review of studies undertaken in related study areas with specific reference to performance contracting and strategy implementation. The chapter reviews empirical studies undertaken on the subject for the purposes of comparison with this study.

2.2 Theoretical Foundation

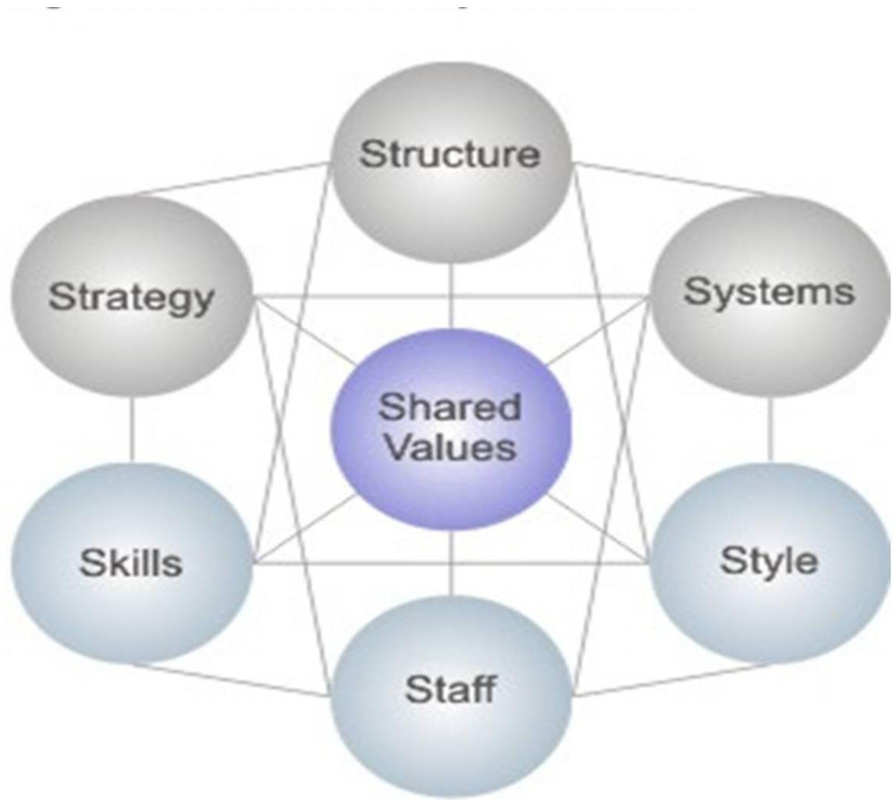
There is no single universally accepted model that performance contracting to strategy implementation; various experts have explained the concept in different ways. This study is based on two theoretical foundations which are the Agency Theory and the Mackenzie’s 7s Theory.

According to Govindarajan and Fisher (1990) Agency theory is directed at the ubiquitous agency relationship, in which one party (the principal) delegates work to another (the agent), who performs that work. Agency theory is concerned with resolving two problems that can occur in agency relationships. The first is the agency problem that arises when (a) the desires or goals of the principal and agent conflict and (b) it is difficult or expensive for the principle to verify what the agent is actually doing. The problem here is that the principal cannot verify that the agent has behaved appropriately. The second is the problem of risk sharing that arises when the principal and agent have different attitudes towards risk. Principals commonly delegate decision-making authority to the agents. Agency problems can arise because of inefficiencies and incomplete information.

The McKinsey 7S model is most often used as a tool to assess and monitor changes in the internal situation of an organization Fleisher, Craig S. and Babette E. Bensoussan (2007). The model is based on the theory that, for an organization to perform well, these seven elements need to be aligned and mutually reinforcing. So, the model can be used to help identify what needs to be realigned to improve performance, or to maintain alignment (and performance) during other types of change. Successful implementation of strategy requires management of the interrelationships between seven elements.

The objective of the model is to analyze how well an organization is positioned to achieve its intended objective. It is used to; improve the performance of a company, examine the likely effects of future changes within a company, align departments and processes and determine how best to implement a proposed strategy. The way the model is presented in Figure 1 below depicts the interdependency of the elements and indicates how a change in one affects all the others.

Fig 1: The McKinsey 7S Model



Mabey has prescribed the model of performance management system in the form of 'performance management cycle'. The elements of PMS cycle include setting objectives, measuring the performance, feedback of performance results, reward system based on performance outcomes, and amendments to objectives and activities (Mabey et al, 1999).

Salaman says there are two theories underlying the concept of performance management: the goal-setting theory and expectancy theory. Goal-setting theory had been proposed by Edwin Locke in the year 1968. This theory suggests that the individual goals established by an employee play an important role in motivating him for superior performance (Salaman et al, 2005). The expectancy theory is based on the hypothesis that individuals adjust their behavior in the organization on the basis of anticipated satisfaction of valued goals set by them. The individuals modify their behavior in such a way which is most likely to lead them to attain these goals. This theory underlies the concept of performance management as it is believed that performance is influenced by the expectations concerning future events. (Salaman et al, 2005)

2.3 Strategy Implementation Process

Strategy implementation is the translation of chosen strategy into organizational action so as to achieve strategic goals and objectives. Strategy implementation is also defined as the manner in which an organization should develop, utilize, and amalgamate organizational structure, control systems, and culture to follow strategies that lead to competitive advantage and a better performance. Strategy implementation is the process of allocating resources to support the chosen strategies. This process includes the various management activities that are necessary to put strategy in motion, institute strategic controls that monitor progress, and ultimately achieve organizational goals.

Mintzberg et al. (1999) indicate that strategy implementation is composed of a series of activities which are primarily administrative. According to Steiner (1978), the implementation process covers the entire managerial activities including such matters as motivation, compensation, management appraisal, and control processes. Higgins points out that almost all the management functions; planning, controlling, organizing, motivating, leading, directing, integrating, communicating, and innovation are in some degree applied in the implementation process. Pierce and Robinson (1986) state that to effectively direct and control the use of the firm's resources, mechanisms such as organizational structure, information systems, leadership styles, assignment of key managers, budgeting, rewards, and control systems are essential strategy implementation ingredients.

S.Certo and J. Peter (2003) proposed a five-stage model of the strategy implementation process: determining how much the organization will have to change in order to implement the strategy under consideration. He considered; analyzing the formal and informal structures of the organization; analyzing the "culture" of the organization; selecting an appropriate approach to implementing the strategy; implementing the strategy and evaluating the results. An organizational control system is also required. This control system equips managers with motivational incentives for employees as well as feedback on employees and organizational performance. Organizational culture refers to the specialized collection of values, attitudes, norms and beliefs shared by organizational members and groups.

2.4 Factors in Strategy Implementation

According to Murphy and Cleveland (1995) the contextual factors that influence or interfere with performance measurement and may undercut objectives to improve accountability and organizational performance include organizational complexity and coordination; organizational climate or culture and values; competition among functional units or within sectors; and general economic and political conditions.

The importance of these factors may be magnified in public organizations by frequently changing political and administrative priorities, professional and partisan conflict within bureaucracies, and the sometimes precarious links across government levels and between formal and informal authorities in strategy implementation. Some of the factors in successful strategy implementation are as follows;

According to Y. Li, Guohui S., Eppler MJ (2008), individual factors that influence strategy implementation are divided into: soft factors (people oriented factors: communications, consensus and commitment), hard factors (institutional factors: organizational structure and administrative system) and mixed factors (strategy formulation, SBU relationship among different hierarchical levels and strategy etc.).

2.4.1 Strategy formulation

It is clear that a poor or vague strategy can limit implementation efforts dramatically. Good execution cannot overcome the shortcomings of a bad strategy or a poor strategic planning effort (Hrebiniak, 2006). Several studies mention the fact that the kind of strategy that is developed (Alexander, 1985; Allio, 2005) and the actual process of strategy formulation, namely, how a strategy is developed (Kim & Mauborgne, 1991, 1993; Singh, 1998) will influence the effect of implementation.

Alexander (1985) believes that the need to start with a formulated strategy that involves a good idea or concept is mentioned most often in helping promote successful implementation.

2.4.2 Organizational Structure

According to Heide & Gronhaug & Johannessen's (2002), Organizational structure is the second most important strategy implementation factor. Drazin and Howard (1984) see a proper strategy-structure alignment as a necessary precursor to the successful implementation of new business strategies (Noble, 1999). They point out that changes in the competitive environment require adjustments to the organizational structure.

Schaap (2006) also suggests that adjusting organizational structure according to perfect strategy can ensure successful strategy implementation. Different strategy types have different requirements regarding an adequate organizational structure.

2.4.3 Executors

Executors are comprised of top management, middle management, lower management and non-management. Effectiveness of strategy implementation is, at least in part, affected by the quality of people involved in the process (Govindarajan, 1989). Here, quality refers to skills, attitudes, capabilities, experiences and other characteristics of people required by a specific task or position (Peng & Litteljohn, 2001). Strategy implementation success depends crucially on the human or people side of project management, and less on organization and systems related factors.

2.4.4 Communication

Findings of Peng and Litteljohn (2001) show that effective communication is a key requirement for effective strategy implementation. Organizational communication plays an important role in training, knowledge dissemination and learning during the process of strategy implementation. In fact, communication is pervasive in every aspect of strategy implementation, as it relates in a complex way to organizing processes, organizational context and implementation objectives which, in turn, have an effect on the process of implementation. Rapert and Wren (1998) find that organizations where employees have easy access to management through open and supportive communication climates tend to outperform those with more restrictive communication environments

2.4.5 Implementation tactics

Lehner (2004) takes implementation tactics as genuine organizational behavior based on the assumption that implementation in general is dependent on the environment, and various strategic and organizational variables. Nutt (1987) explains the four tactics as follows: Intervention refers to strategy adjustments during the implementation stage by introducing new norms and practices. Participation consists of articulating strategic goals and nominating a task force that develops and proposes corresponding implementation options. Persuasion consists of the tactic of using the involved parties to convince employees about the decided course of actions.

2.4.6 Commitment

MacMillan & Guth (1985) thought that the shared understanding of middle management and those at the operational level to the top management teams strategic goals is of critical importance to effective implementation (Rapert, Velliquette and Garretson, 2002). Strategy implementation efforts may fail if the strategy does not enjoy support and commitment by the majority of employees and middle management. Otaining employee commitment and involvement can promote successful strategy implementation.

2.5 Challenges of Strategy Implementation

Implementation of a particular strategy does not always guarantee profitable results or expected results. This is especially so when contemporary challenges such as internationalization, e-commerce, changing purposes and knowledge or learning are not addressed. There are various challenges of strategy implementation.

Lack of synergy between strategy and culture may obstruct the smooth implementation of strategy by creating resistance to change and Aosa (1992) states that it is important that the culture of an organization be compatible with the strategy being implemented because where there is incompatibility between strategy and culture, it can lead to a high organizational resistance to change and de-motivation, which in turn can frustrate the strategy implementation effort.

Those organizations today operate in an era of discontinuity. The magnitude, speed, unpredictability and impact of change is greater than ever before. Protected industries have become liberalized while public protected monopolies have been opened up to intense competition. Change has become pervasive and persistent. The challenges of managing persistent change are enormous. Consequently managers have to constantly address problems posed by globalization forces and other unpredictable changes arising from both the internal and external environment.

Inappropriate systems utilized during the process of operationalization, institutionalization and control of the strategy are often sources of challenges during strategy implementation. The process of institutionalization relies heavily on the organization configuration that consists of the structures, processes, relationships and boundaries through which the organization operates (Johnson and Scholes, 2003).The choice of a particular structure is a formidable challenge. Whilst the strategy should be chosen in a way that it fits the organization structure, the process of matching structure to strategy is complex

The biggest challenge in leadership is in determining the “right things”, especially at a time where industries are mature or declining; the global village is becoming increasingly complex, interconnected, and unpredictable; and product lifecycles are shrinking (Dess et al., 1998). Such challenges are even more acute in strategy implementation.

A leader also faces all kinds of barriers, such as conflicting objectives, organizational fiefdoms, political rivalries and organizational inertia. Things don’t always work out as planned – sometimes gravity takes over and things come crushing down around the leader. Such happenings impede strategy implementation process. Kangoro (1998) notes that lack of commitment to strategic management practices by top management and other employees of the organizations results in poor implementation.

The various activities necessary to implement any particular strategy should be defined in terms of each type of resource required. The operating level must have the resources needed to carry out each part of the strategic plan (Harvey, 1998). It is often a common practice to reduce this specification of resource requirements to monetary terms

According to Daft (2000), one major shortcoming of strategic implementation in organizations is a failure to translate statements of strategic purpose into identification of those factors which are critical to achieving the objectives and the resources/competencies to ensure success. The intangible resources may also lead to unique challenges associated with external accountability imposed by the authorizing environment. Inadequacy of any form of resources, such as inadequate funds, equipment and facilities, and human resources skills and experience, is often a big challenge during strategy implementation.

2.6 Performance Contracting

Performance management is a continuous process of identifying, measuring, and developing the performance of individuals and teams and aligning performance with the strategic goals of the organization. (Aguinis, 2009) Performance management is many times mistaken as performance appraisal but the latter is just a part of the former.

Research on performance management suggests that, in responding to the requirements of Government Performance and Results Act, state agencies should choose performance measures that are closely aligned with their stated goals; approximate actual performance as closely as possible; are relatively simple and inexpensive to administer; and make it difficult for managers to increase their measured performance in ways other than increasing their actual performance. When multiple or conflicting goals motivate employees, when organizational goals and performance measures diverge, or when bureaucratic effort across government levels is not readily observed, problems in performance-management systems are likely to arise (Kravchuk and Schack 1996).

According to Lumijärvi et al., (1997), at the micro level, management by results or performance management can be treated as an intra-organisational steering system of the public agencies. It means setting result targets and a daily management model which utilises the objective result evaluation system. In this model, the top level aim at directing resources to strategically important targets and getting their personnel to commit themselves to achieving the result targets.

Performance contracts can be directly applied to the meso and micro levels. At the meso level, a contract is typically made between a ministry and its subordinate agency. The contract is considered to be a control measure for the implementation of state policies. It aims at reducing the problems between the principal and agent such as moral hazard or adverse selection by building a mutual trust relation instead of strict *ex ante* controls of the detailed budget appropriations.

2.7 Performance Contracting and Strategy Implementation

The use of Performance Contracts has been acclaimed as an effective and promising means of improving the performance of public enterprises as well as government departments. Fundamentally, a Performance Contract is an agreement between a government and a public agency which establishes general goals for the agency, sets targets for measuring performance and provides incentives for achieving these targets (Hunter and Gates, 1998). They include a variety of incentive-based mechanisms for controlling public agencies, controlling the outcome rather than the process. The success of Performance Contracts in such diverse countries as France, Pakistan, South Korea, Malaysia, India, and Kenya has sparked a great deal of interest in this policy around the world.

Governments are increasingly faced with the challenge to do things differently but with fewer resources. Performance contracting provides a framework for generating desired behaviour in the contest of devolved management structures. Employers view performance contracting as a useful vehicle for articulating clearer definitions of objectives and supporting new management monitoring and control methods, while at the same time leaving day-to-day. The OECD (1997) alleges that the use of contracting in government services is increasing, as the evidence is fairly clear that contracting out can lead to efficiency gains, while maintaining or increasing service quality levels.

According to Kobia and Mohamed (2006) the expected outcomes of the implementation of the performance contracting were; improved performance, decline in reliance on Exchequer funding, Increased transparency in operations and resource utilization, Increased accountability for results, Linking reward on measurable performance, Reduced confusion resulting from Multiplicity of objectives, Clear apportionment of responsibility for action, improvement in the correlation between planning and implementation, creating a fair and accurate impression on the performance, greater autonomy, creation of enabling legal and regulatory environment.

Thompson and Strickland (1998) argue that strategy implementation is all about acting on what has to be done internally to put formulated strategies in place thus ensuring that targeted results are achieved within the targeted framework of time. Mintzberg (1979) argues that if one believes that strategies are explicit, implementation would mean carrying out the pre-determined strategic plans

According to Kobia and Mohamed (2006), implementation of the Process of Performance Contracting began only in 2004 and the real impact of the process is yet to be fully visible. However, there is clear evidence of radical improvement in Public Service:

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter covers the methodology that will be applied in carrying out the study. It describes the research design, data collection method and data analysis that was used in the study.

3.2 Research Design

This study was a descriptive cross-sectional survey. Dooley (2007) defines research design as the scheme, outline or plan that are used to generate answers to research problems The researcher aimed at studying the total population and has drawn inferences from the data collected. According to Churchill (1999) a descriptive survey was appropriate since it describes the elements of the study variables. The study sought to determine the influence of performance contracting on strategy implementation in the commercial state corporations and make predictions.

3.3 Population of the study

The study population was all the Commercial State Corporations in Kenya. There are thirty one (31) Commercial /Manufacturing State Corporations in Kenya as outlined in the State Corporations Advisory Committee (SCAC) guidelines (Appendix II). These are commercial state agencies. The commercial state corporations are in various ministries such as trade, agriculture, tourism, education and science and technology and telecommunication.

3.4 Data Collection

Data was collected from thirteen commercial state corporations. Primary data was collected. The data was collected through use of questionnaires. A semi-structured questionnaire was used. The questionnaire had both closed ended and open ended questions.

The respondents from each the organizations were Senior Management Officers tasked with overseeing the performance contracting implementation and strategy implementation. This is because these are the Officers who had first hand information on how the organization has been implementing the performance contract and the strategic plans. The respondents will be asked to respond to the same set of questions.

The researcher administered the questionnaire by dropping the questionnaire to the organization premises and emailed other questionnaires to some organizatios. Follow up was done through telephone communications.

3.5 Data Analysis

The researcher evaluated the responses the questionnaires and sought to establish whether there any anomalies. The researcher carried quantitative, qualitative and content analysis of the responses. As suggested by (Yin, 1994) the deductive method as well as descriptive statistics was used. Mean scores, standard deviations, frequencies, percentages and mean Pearson correlation coefficient were used to analyze data to determine the influence of performance contracting on strategy implementation. Qualitative data will be analyzed using content analysis. The test was used to measure the strength of a linear association between performance contracting in the organization and strategy implementation, where the value $r = 1$ means a perfect positive correlation and the value $r = -1$ means a perfect negataive correlation. Figures and tables were used in summarizing, organizing and in creating a visual impression of the results of the analysis. The data was presented in tables.

Variability and reliability assessment

At 5% level of significance and 95% level of confidence, cascading of performance contract had 0.36 negative correlation to strategy implementation during the previous strategic plan period and -0.16 during the current strategic plan period.

CHAPTER FOUR

DATA ANALYSIS, INTERPRETATIONS AND DISCUSSIONS

4.1 Introduction

The research objective was to determine the influence of performance contracting on strategy implementation in commercial state corporations in Kenya The method of data collection was questionnaire through the use of email, and hand delivery to the commercial state corporations.

This chapter presents the analysis and findings of the study. The view presented is a convergence of the opinions of the respondents who are knowledgeable people in, top, senior or middle management with over 6 years work experience in the organization and over 5 years in performance contracting or strategy implementation. The findings have been summarized in similar manner to the questionnaire.

4.2 General information

The organizations studied have been in existence for varied number of years ranging from 7 years to 100 years. They are of different sizes in terms of Annual Revenue, number of staff, number of departments and number of customers. The annual revenue varies from one organization to another with a range of 750 Million and 8 Billion.

The number of staff range between 148 and 10,000 staff. The number of departments/ divisions range between 6 and 16. The number of customers range between 1 to 2.5

million. Therefore these organizations have different capacities and capabilities to implement strategies.

The organizations belonged to different sectors of the economy hence they had varied strategic objectives, there were different strategies to be implemented and different resources were requirements. All the organizations surveyed had strategic plans running between 4 to 5 years.

4.3 Extent of Performance Contracting

All respondents expressed that the organization was involved in the performance contracting. The period within which the 13 organizations had been involved in the performance contracting varied as shown below;

Table 4.1: Period of organizational involvement in performance contracting

Period	**Frequency**	**Percentage**
0 -3 years	**2**	**14%**
4- 6 years	**7**	**50%**
7 – 9 years	**3**	**21%**
0ver 10 years	**1**	**7%**
Total	**13**	**100%**

Source: Field Data

50% of the organizations studied had been involved in performance contracting between 4 and 6 years. 21% of the organizations had been involved in performance contracting between 7 and 9 years. 14% of the organizations had been involved in performance contracting between 0 and 3 years. Only one of the organization reported to have been involved in the performance contracting for the longest period.

Table 4.2: Management involvement in performance contracting

Level of management	Frequency	Percentage
Top management	**13**	**100%**
Senior management	**12**	**93%**
Middle management	**12**	**93%**

Source: Field Data

100% of the organizations had their top management involved in the performance contracting and 93% of the organizations had the senior and middle management involved in performance contracting. On average 74% of the staff population had been involved in performance contracting.

Table 4.3: Budgetary allocation to performance contracting activities

PC Budgetary allocation	Frequency	Percentage
0.5%	**3**	**29%**
1%	**5**	**36%**
2%	**2**	**14%**
Not sure/ Do not know	**3**	**21%**

Source: Field Data

36% of the organizations had set aside 1% of the total budget for PC activities, 29% of the organizations had set aside 0.5%, 14% of the organizations had set aside 2% of the total budget for PC activities. 21% of the respondents were not sure or did not know what percentage of the total budget had been set aside by the organization for performance contracting activities.

Table 4.4: Cascading of the Performance contract to various staffing levels

Extent of cascading	Frequency	Percentage
100%	4	31%
75%	8	62%
50%	1	8%
25%	0	0%
0%	0	0%

Source: Field Data

62% of the organizations had cascaded the PC to 75% of their staff. 31% had cascaded the PC to all the levels of staffing. 8% of the organizations had cascaded to 50% of the staff

Table 4.5: Entrenchment of the Performance contract to various functions

Extent of PC entrenchment to various functions	Frequency	Percentage
100%	5	38%
75%	5	38%

50%	**3**	**23%**
25%	**0**	**0%**
0%	**0**	**0%**

Source: Field Data

38% of the organizations had entrenched the PC to 100% in their functions. 38% had entrenched the PC to 75% in their functions. 23% of the organizations had entrenched the PC to 50% in their functions

4.4 Extent of strategy implementation

Table 4.6: Extent of strategy implementation during the previous strategic plan period

Extent of strategy implementation	Frequency	Percentage
100%	**5**	**38%**
75%	**8**	**62%**
50%	**0**	**38%**
25%	**0**	**8%**
0%	**0**	**0%**

Source: Field Data

38% of the organizations had implemented 100% of the strategies. 62% had implemented 75% of the strategies.

Table 4.7: Extent of strategy implementation during the Current strategic plan period

Extent of strategy implementation	Frequency	Percentage
100%	**3**	**23%**
75%	**7**	**54%**
50%	**1**	**8%**
25%	**2**	**15%**
0%	**0**	**0%**

Source: Field Data

23% of the organizations had implemented 100% of the strategies. 54% had implemented 75% of the strategies. 8% of the organizations had implemented 50% of the strategies while 15% had implemented 25% of the strategies.

4.5 Performance Contracting and Strategy Implementation

Table 4.8: Extent of strategy implementation during the previous and current strategic plan period

Respondent	Extent of Performance Contracting (X)	Extent of strategy implementation during	
		Previous strategic plan period (Y1)	Current Strategic plan period (Y2)
1	94	75	25
2	83	75	50
3	95	75	75
4	84	75	75
5	100	100	100

6	89	75	75
7	72	100	100
8	81	75	75
9	85	75	25
10	74	100	75
11	80	100	100
12	85	75	75
13	80	100	75
Total	**1102**	**1100**	**925**
Mean	**85**	**85**	**71**

N= 13

Source: Field Data

$$r = \frac{\sum_i (x_i - \overline{x})(y_i - \overline{y})}{\sqrt{\sum_i (x_i - \overline{x})^2}\sqrt{\sum_i (y_i - \overline{y})^2}}$$

<u>Key</u>

X: Extent of performance contracting

Y1: Extent of strategy implementation in the previous strategic plan period

Y2: Extent of strategy implementation in the current strategic plan period

M_x: Mean of X Values

M_y: Mean of Y Values

$X - M_x$ & $Y - M_y$: Deviation scores

$(X - M_x)^2$ & $(Y_1 - M_y)^2$: Deviation Squared

$(X - M_x)(Y - M_y)$: Product of Deviation Scores

During the previous strategic plan period

R Calculation

$r = \sum((X - M_y)(Y - M_x)) / \sqrt{((SS_x)(SS_y))}$

$r = -446.153846153846 / \sqrt{((782.31)(1923.08))} = -0.36$

$r = -0.36$

R^2, the coefficient of determination, is 0.13.

Although there was a negative correlation, the relationship between the variables is weak.

During the current strategic plan period

R Calculation

$r = \sum((X - M_y)(Y - M_x)) / \sqrt{((SS_x)(SS_y))}$

$r = -367.307692307692 / \sqrt{((782.31)(6442.31))} = -0.16$

$r = -0.16$

R^2, the coefficient of determination, is 0.03.

Although there was a negative correlation, the relationship between the variables is weak.

4.6 Discussion of Findings

All the organizations studied were involved in performance contracting. Most of the organizations had been involved in performance contracting for a period between 4 to 6 years. All the organizations had their top management involved in the performance contracting meaning that the top management was committed to performance contracting. 92% of the organizations had the senior and middle management involved in performance contracting and in most of the organizations all the staff had been involved and signed performance contracts at individual level. This meant that more strategy implementers/ executors had been involved in the performance contracting. As shown on table 4.5 most of the organizations had entrenched the performance contract to 75% and above of their organizational functions. This shows that performance contracting had been entrenched to the operations in most functions within the organization. Most of the organizations had implemented over 75% of the strategies in the previous strategic plan period. There was a weak relationship between cascading of performance contract to all staff while entrenching the PC in various functions and strategy implementation during the previous and the current strategic plan period. Some of the organizations had not implemented the strategies to a large extent owing to the fact that many organizations had just began the current strategic plan period hence majority had not implemented most of the strategies.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The study objective was to determine the influence of performance contracting on strategy implementation in commercial state corporations in Kenya. This chapter sets out a summary of key findings, discussions and conclusions drawn from the study as set out in the previous chapter.

5.2 Summary of the findings

Most of the organizations had been involved in performance contracting between 4 to 6 years. All the organizations had their top management involved in the performance contracting. In most of the organizations all the staff had been involved and signed performance contracts at individual level.

Most organizations had the performance contract entrenched to the organizational functions. More strategies had been implemented during the previous strategic plan period while very few strategies had been implemented during the current strategic plan period.

5.3 Conclusion of the study

In conclusion, performance contracting influences strategy implementation in commercial state corporations. Performance contracting has enhanced the level of accountability in most commercial state corporations and had led to the improvement of service delivery. This has therefore led to strategy implementation.

5.4 Implications of the results

There was a weak relationship between the extent of cascading of performance contracting and strategy implementation during the two periods. This implies that other aspects of performance contracting need to be studied to determine their influence on strategy implementation.

5.5 Recommendation of the study

The researcher recommends that performance contracting should be embraced by all commercial state corporations and supported by top management. The performance contracts should be cascaded to all the levels in the organization. Performance contracts should be entrenched to the various organizational functions. Employee involvement in strategy implementation should be enhanced.

5.6 Limitations of the Study

Lack of prior research studies on the topic

While there were several studies on strategy implementation and few studies on performance contracting there were no research studies done on the influence of performance contracting on strategy implementation. Therefore were no studies to help lay the foundation for understanding the research problem you are investigating.

Limited Access

While the data was intended to be collected through email questionnaires, most organizations did not prefer that method of data collection. Many organizations require formal applications while others required that the researcher visits the organization in person. The study depended on formal authorization from the Managing Directors or Senior Management Official before the personnel responsible for providing the data could fill the questionnaire. This necessitated several follow up with the organization to obtain the authorization and the data.

Low response rate

While I had undertaken to study the entire 31 commercial state corporation by e-mailing a questionnaire several organizations did not respond to email. The number of organizations studied was fewer than expected. This may have made it difficult to find significant relationships from the data, as a larger sample size would have been necessary to ensure a representative distribution of which results will be generalized.

5.7 Suggestions for Further Research

It is recommended that further research be carried out to determine the influence of the performance contract on strategy implementation in other government organizations and further research be done to determine the aspects of the performance contract that influence strategy implementation.

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APPENDICIES

APPENDIX 1

QUESTIONAIRE

PART A: GENERAL INFORMATION

1. Name of the Corporation? ____

   ____

2. Name of the respondent? (optional)____

3. What is your position in the organization? __________________________________

4. What Category best describes your position?

   a) Top Management ( )

   b) Senior Management ( )

   c) Middle Management ( )

5. How long have you been working for the organization?

   a) 0 - 3 years ( )

   b) 3 - 6 years ( )

   c) 6 - 9 years ( )

   d) 10 and above years ( )

6. How long have you been involved in performance contracting/strategic management in the organization? __________Years
7. How long has the organization been in existence? _____________Years
8. What is the size of the organization?

    a) Annual Revenue (Ksh) ________________________________

    b) Number of Staff ____________________________________

    c) Number of Departments _______________________________

    d) Number of Customers _________________________________

9. In which sector of the economy is the corporation classified?

____

PART B: EXTENT OF PERFORMANCE CONTRACTING IN THE ORGANIZATION

10. Is the organization involved in performance contracting? Yes______ No ______
11. How long has the organization been involved in performance contracting?

    a) 0 - 3 years ( )

    b) 4 - 6 years ( )

    c) 7 - 9 years ( )

    d) Over 10 years ( )

12. What level of management is involved in performance contracting?

    a) Top Management ( )

    b) Senior Management ( )

    c) Middle level Management ( )

    d) Other (specify) ____

13. What percentage of the staff population is involved in the performance contracting activities? ____

14. What percentage of the total budget is set aside for performance contracting activities?____

15. To what extent has the performance contract been cascaded within the organization?

No.	**Cascading of performance contract**	**Scale**				
		0%	**25%**	**50%**	**75%**	**100%**
1	Senior management					
2	Departmental Heads					
3	Section Heads					
4	All staff					

16. To what extent has the performance contract been entrenched in the following functions in the organization?

No.	**Functions**	**Scale**

		0%	**25%**	**50%**	**75%**	**100%**
1	Financial management					
2	Human Resource management					
3	Administration services					
4	Procurement					
5	Information, communication and telecommunication					
6	Quality management					
7	Records management					
8	Other functions					

PART C: EXTENT OF STRATEGY IMPLEMENTATION IN THE ORGANIZATION

17. Does the organization have a strategic plan? Yes____________ No ___________

18. What was the previous strategic plan period? ______________________________

19. How many strategies did the organization have at the beginning of the previous strategic plan period? ____

20. What percent of the organization's strategies were implemented during the previous strategic plan period?

No.	**Extent of strategy implementation**	**Scale**				
		0%	**25%**	**50%**	**75%**	**100%**
1	Fully implemented					

2	Three quarter way implemented					
3	Half way implemented					
4	Quarter way implemented					
5	Not implementation					

21. What is the current strategic plan period? ______________________________

22. How many strategies were brought forward from the previous strategic plan period? ____

23. How many new strategies did the organization have at the beginning of the current strategic plan period? ____

24. What percent of the total number strategies have been implemented up to date?

No.	**Extent of strategy implementation**	**Scale**				
		0%	**25%**	**50%**	**75%**	**100%**
1	Fully implemented					
2	Three quarter way implemented					
3	Half way implemented					
4	Quarter way implemented					
5	Not implementation					

Thank you for your response.

APPENDIX 2

LIST OF COMMERCIAL STATE CORPORATIONS

The commercial/ manufacturing state corporations are listed below with their parent ministries.

1. Agro-Chemicals and Food Company - Agriculture
2. Chemelil Sugar Company - Agriculture
3. East African Portland Cement Company -Trade and Industry
4. Gilgil Telecommunications Industries- Information and Communications
5. Jomo Kenyatta Foundation - Education, Science and Technology
6. Kenya Airports Authority -Transport
7. Kenya Broadcasting Corporation -Information and Communications
8. Kenya Electricity Generating Company - Energy
9. Kenya Literature Bureau - Education, Science and Technology
10. Kenya Medical Supplies Agency - Health
11. Kenya Ordinance Factories Corporation - Office of the President (DOD)
12. Kenya Pipeline Company - Energy
13. Kenya Ports Authority - Transport.
14. Kenya Power and Lighting Company - Energy.

15. Kenya Railways Corporation -Transport

16. Kenya Safari Lodges and Hotels -Tourism and Wildlife

17. Kenya Seed Company Limited - Agriculture

18. Kenya Wine Agencies- Trade and Industry

19. Kenyatta International Conference Center Tourism and Wildlife

20. National Cereals and Produce Board - Agriculture

21. National Housing Corporation - Lands, Settlement and Housing

22. National Oil Corporation of Kenya - Energy

23. National Water Conservation and Pipeline Corporation -Water and Irrigation

24. Numerical Machining Complex -Trade and Industry

25. Nzoia Sugar Company - Agriculture

26. Postal Corporation of Kenya - Information and Communications

27. Pyrethrum Board of Kenya - Agriculture

28. School Equipment Production Unit -Education, Science and Technology

29. South Nyanza Sugar Company - Agriculture

30. Telkom Kenya Limited - Information and Communications

31. University of Nairobi Enterprises and Services Limited - Education, Science and Technology