

**THE EFFECT OF PERFORMANCE CONTRACTING STRATEGY ON THE  
PERFORMANCE OF STATE CORPORATIONS IN THE  
ENERGY SECTOR IN KENYA**

**BY**

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## DECLARATION

### STUDENT'S DECLARATION

This research project is my original work and has not been presented anywhere else for the Purpose of Examination.

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### SUPERVISOR'S DECLARATION

This research project has been submitted for examination with my approval as the candidate's University Supervisor.

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Date.....

7/11/2011

## DEDICATION

This study is dedicated to my loving family, my beloved wife, Joan Birech and children Emmanuel Kiplagat Yego, Jacobet Chelimo and Hope Jepchumba Kipyego.

I also dedicate this to my loving parents Kibirech Koras and Tapartai Sagin who have supported my studies since my early childhood..

## ACKNOWLEDGEMENT

I thank the Almighty God for His guidance and providence which enabled me to undertake this project that was too involving in terms of time and resources.

I wish to express my sincere appreciation to my family for their understanding and support during the project developing phase.

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Lastly, I also wish to acknowledge my employer, the Rural Electrification Authority, for the opportunity given to me to attend classes to meet my academic datelines as well as my former employer the Kenya Post Office Savings Bank, where I began these studies.

## ABSTRACT

A performance contract is a freely negotiated performance agreement between the Government, acting as the owner of a Government Agency, and the management of the Agency. 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. This study shall focus on the effect of performance contracting on performance of state corporations in the energy sector in Kenya that total ten in number. Despite the availability of extensive existing literature on performance contracting there is no information on the impact of performance contracting on performance of state corporations in the energy sector in Kenya. This study was conducted through a survey research design. In this survey a census was done since data was obtained from the entire population. The survey targeted the implementers of the performance contracting as the population elements. This included the performance contracting staff, head of divisions/sections, and the CEOs. The researcher used both primary and secondary data in order to collect views, opinions, perceptions, feelings and attitudes from the respondent issues regarding effect of performance contracting on performance of energy sector parastatals in Kenya. The data was then coded to enable the responses to be grouped into various categories. The findings were presented using tables and charts. The study concludes that some staffs had signed a performance contract with the energy corporation. Doing the job efficiently was the central theme of the public sector reform. Performance contracting promoted commitment in revenue collection at the energy corporation to a very great extent. There were challenges in the implementation of the performance contracting program in the energy corporations to a moderate extent. The study recommends the government to implement the performance contract at the energy sector. The study recommends the government to structure the PC in a way it will enhance consistency in revenue collection at the energy corporation. The study recommends the government to motivate the staff and encourage them come-up with a new idea/product/service to enhance revenue collection at the energy corporation.

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## CHAPTER ONE: INTRODUCTION

### 1.1 Background of the Study

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 part of the broader Public Sector Reforms aimed at improving efficiency and effectiveness in the management of the public service. A Performance contract is a freely negotiated performance agreement between the Government, acting as the owner of a Government Agency, and the management of the Agency. It clearly specifies the intentions, obligations and responsibilities of the two contracting parties (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, since it measures the extent to which they achieve targeted results (Greer *et al.*, 1999).

Performance contracts originated from the perceptions that the performance of the public sector has 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 (RBM guide, 2005). However with the implementation of performance contracting in the last five years (since 2004), there is need to establish how the implementation has impacted on service delivery. Implementation of the process of performance contracting began in 2004 in state corporations. Performance contracting is supposed to enhance job satisfaction for the employees with the hope that their satisfaction would lead to improved job

performance. The improved job performance should in turn lead to tangible and improved financial performance. The Economic recovery strategy for wealth and employment creation (2003-2007) outlines the Government's commitment to improve performance, corporate Governance and management in the public service through the introduction of performance contracts. The policy paper opens with a bold statement that "the public sector has become a bottleneck to the overall development of Kenya.

### **1.1.1 The Concept of Performance Contracting**

In the Kenyan context a performance contract is a written agreement between government and a state agency (local authority, state corporation or central government ministry) delivering services to the public, wherein quantifiable targets are explicitly specified for a period of one financial year (July to June) and performance measured against agreed targets. The performance contracting strategy hence mirrors very closely the OECD, (1997) definition 'as a range of management instruments used to define responsibilities and expectations between parties to achieve mutually agreed results.

In implementing performance contracts, the common issues that were being addressed include: improve performance to deliver quality and timely services to the citizen, improve productivity in order to maximize shareholders wealth, reduce or eliminate reliance on the exchequer, instill a sense of accountability and transparency in service delivery and the utilization of resources and give autonomy to government agencies without being subjected to the bureaucracies and unnecessary procedures.

Lessons of experience with regard to the use of outside consultants, expert or advisors, especially from developed countries, in the formulation of development plans, have shown that while they may be knowledgeable about certain issues and areas that are generic to their field of specialization, they often lack an intimate knowledge of the unique socio-political and economic circumstances confronting individual countries, especially those of the third world (Musa, 2001).

### 1.1.2 Organizational Performance

Improvement in individual, group, or organizational performance cannot occur unless there is some way of getting performance feedback. Feedback is having the outcomes of work communicated to the employee, work group, or company. For an individual employee, performance measures create a link between their own behavior and the organization's goals. For the organization or its work unit's performance measurement is the link between decisions and organizational goals (Dye 1992).

Measurement of organizational performance is the first step in improvement. But while measuring is the process of quantification, its effect is to stimulate positive action. The management should be aware that almost all measures have negative consequences if they are used incorrectly or in the wrong situation. Hence they have to study the environmental conditions and analyze these potential negative consequences before adopting performance measures (GoK,2004).

Measures of performance of energy sector parastatals usually embrace the following fundamental issues; money usually measured as profit, output/input relationships or productivity, customer focus, innovations and the key resources of employees.

The specific measures include; Cost of quality: measured as budgeted versus actual, variances: measured as standard absorbed cost versus actual expenses, period expenses: measured as budgeted versus actual expenses, safety: measured on some common scale such as number of hours without an accident, profit contribution: measured in dollars or some common scale, inventory turnover: measured as actual versus budgeted turnover (Domberger,1998).

While financial measures of performance are often used to gauge organizational performance, some firms have experienced negative consequences from relying solely on these measures. Kaplan and Norton's balanced scorecard approach operates from the

perspective that more than financial data is needed to measure performance and that nonfinancial data should be included to adequately assess performance.

### **1.1.3 The Energy Sector in Kenya**

The Energy sector was incorporated in 1979 upon Kenya Government's realization that energy was a major component in the country's development process. This realization was mainly due to two oil price escalations of 1973/74 and 1979 which resulted in the country spending relatively more foreign exchange to import oil. Prior to formation, energy sector issues were scattered over several ministries. The Ministry of Power and Communications was responsible for electricity development including the Rural Electrification Programme, Tana River Development Company, Kenya Power and lighting Company and pricing of power jointly with Ministry of Finance. The Ministry of Finance was in charge of petroleum pricing and representation of government interests in the Kenya Petroleum Refineries Limited (GoK,2004).

The public sector in Kenya is also faced with the challenge of poor and declining performance, which inhibits realization of sustainable economic growth. The Public sector had consistently fallen below expectations due to: Excessive regulations and controls; Frequent political interference; Poor leadership and management; Outright mismanagement (Kenya Railways, Kenya Meat Commission); Bloated staff establishments; Multiplicity of principals and non-performing employees. In addition to regressing economic growth, the declining in Public Service has resulted to poor performance, poor service delivery, degeneration of infrastructure and severe brain drain. The initiatives to adopt performance contracts in public institutions have been driven by the changes in political environment in terms of securing better value for money in public services, encouraging greater openness and accountability, and for service improvements in dealing with the general public as consumers (Brown, 1996).

In Kenya PC is governed by an Act of Parliament namely under State Corporations (Performance Contracting) Regulations, 2004, therefore all public institutions are legally

bound. Thus, the mainstream civil service and several public organizations have adopted Performance contract concept. The need to focus scarce government resources on high priority and core areas as a means of achieving effectiveness in service delivery was recognized as early as 1970s and reiterated in subsequent years. Brown (1996) noted among other things the need to improve efficiency and economy in administration of the civil service.

The objectives of performance contract strategy in the civil service include: improving service delivery to the public by ensuring that top-level managers are accountable for results, and in turn hold those below them accountable, reversing the decline in efficiency and ensuring that resources are focused on attainment of the key national policy priorities of the Government; institutionalizing performance oriented culture in the civil service through introduction of an objective performance appraisal system; measuring and evaluating performance; linking reward to measurable performance and strengthening and clarifying the obligations required of the Government and its employees in order to achieve agreed targets (Gok,2004).

From the government's side, the contracts are first of all expected to instill accountability for results at all levels of the organization and seeks to transform the performance culture to match that of the private sector thereby translating into improved service delivery in the public sector. Secondly, the contractual employment aims to reduce reliance by the parastatals on the exchequer funding, compel them to give return to the Government through payment of dividends or remittance of surpluses and also inculcate in the public sector the culture of linking reward to measurable output. Thirdly, the contractual employment policy emphasizes placement of management of public sector organizations in the hands of competent managers as good as those in the private sector.

#### **1.1.4 State Corporations in the Energy Sector of Kenya**

The ministry of energy sector in Kenya comprises of various parastatals / statutory bodies in the energy sector. Kenya Power and Lighting Company Limited (KPLC); Kenya

Petroleum Refineries Limited (KPRL);Kenya Electricity Generating Company Limited (Kengen); National Oil Corporation of Kenya (National Oil);Kenya Pipeline Company Limited (KPC); Energy Regulatory Commission (ERC); Rural Electrification Authority (REA); Energy Tribunal; Geothermal Development Company (GDC) and Kenya Electricity Transmitting Company (KETRACO).

## **1.2 Research Problem**

The use of Performance contracts has been acclaimed as an effective and promising means of improving the performance of public enterprises as well as government departments. A performance contract is an agreement between a government and a public agency which establishes general goals for the agency, sets targets for measuring performance and provides incentives for achieving these targets (Hunter and Gates, 1998).

The PC is a critical instrument used by the Government of Kenya to realize its targets and cascaded downwards from the top to the bottom of the state institutions. It promotes transparency and accountability in the management of public resources and utilization of the same for mutual benefit of the people of Kenya. The use of performance contract is also useful in promoting good corporate governance and also offers better and efficient project management and implementation. It also showcases areas of weaknesses which require attention in the following years' financial plans and arrangements.

This study shall focus on the effect of performance contracting on performance of state corporations in the energy sector in Kenya that total ten in number. Though studies have been done on performance contracting in other organizations, none has carried out research on the effect of performance contracting on performance in the energy sector corporations in Kenya as stated below.

Locally, studies which have been conducted on performance contracting have concentrated on implementation (Ogoye, 2002; Choke, 2006 and Langat, 2006) while one



study has tackled the general Impact of performance contracting in state corporations (Korir, 2006). Despite the availability of extensive existing literature on performance contracting there is no information on the impact of performance contracting on performance of state corporations in the energy sector in Kenya. Therefore this study will focus on the effect of performance contracting on the performance of state corporations in the energy sector in Kenya and will be guided by the following research questions:

- i. What is the effect of performance contract on performance in the energy sector of Kenya ?
- ii. What is the level of performance of organizations in the energy sector parastatals in Kenya?
- iii. What opportunities and challenges are associated with performance contracting implementation at the Energy Sector parastatals in Kenya?

### **1.3 Research Objectives**

The objectives of the study were:-

- i. To find out the effect of performance contracting on the performance of the energy sector corporations in Kenya.
- ii. To find out the level of organizational performance in the energy sector Parastatals in Kenya.
- iii. To find out the challenges associated with implementation of performance contracting in the energy sector corporations in Kenya.

### **1.4 Value of the Study**

The Government would get an insight to the impact of performance contracting implementation on service delivery at state corporations that may help it when making

policies regarding them. The study would be instrumental in providing information on the state corporations' management on the effects of performance contracts within their jurisdictions.

The study findings would also lay a foundation for further research and understanding of the relationship between performance contracting and performance improvement and service delivery in public institutions as a basis of policy decisions

The study findings would be of interest and would enable the government know whether the reform initiative has positively impacted on the revenue collection and has been accepted or embraced by all the employees.

## CHAPTER TWO: LITERATURE REVIEW

### 2.1 Introduction

This chapter reviews the information from other researchers who have carried out research in the same field of study. The specific areas covered here are; theories related to the concept of performance contract, performance contracting in the public sector and performance contracting in Kenya as a strategy for performance improvement in the public service.

### 2.2 The concept of Performance Contracting

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. Performance contracting is defined as a range of management instruments used to define responsibility and expectations between parties to achieve mutually agree results. While Smith (1999) argues that a common definition of performance contracting can be found, there are a considerable variety of uses and forms for quasi-contractual arrangements. The objective of performance contracting is the control and enhancement of employees' performance and thus the performance of the whole institution.

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. 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.

International experience with privatization suggests that the process of implementing a well-thought-out privatization program is a lengthy one. It is imperative that immediate steps be taken to increase the efficiency of the public enterprises and reduce further drain on the country's treasury resulting from their losses. A rigorous performance contract exercise reveals the "true" costs and benefits associated with a particular public enterprise. This, in turn, provides a valuable basis for Privatization. Similarly, the Performance Contracts with government departments are being used extensively in OECD countries to improve the delivery of public services and effectiveness of government machinery. Many countries have had success in improving the performance of their own public sector by designing Performance contracts after carefully examining and adapting to their particular needs the lessons of the vast international experience with regards to Performance contracts (PBMSIG,2005).

### **2.3 The Origin and Development of Performance Contracting**

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

Performance contract system originated in France in the late 1960s. It was later developed with great deal of elaboration in Pakistan and Korea and thereafter introduced in India (OECD, 1997). It has been adopted in developing countries in Africa, including Nigeria, Gambia, Ghana and now Kenya. The definition of Performance contracts itself has been a subject of considerable debate among the scholars and human resource

practitioners. Performance contracting is a branch of management science referred to as Management Control Systems. Suresh 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.

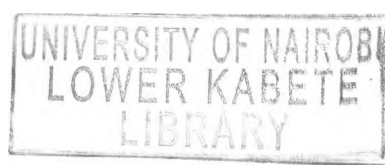
## **2.4 Theories Related to the Concept of Performance Contract**

According to the happiness and success theory, which attempted to relate success of work and happiness, people feel happy when they be achieving their set goals, and especially so when it is a hard-won goal. Positive anticipation and attendant happiness happens when we predict that we will achieve our goals and feel confident about those predictions, perhaps because they have been right recently. According to this view, happiness is not a permanent state, and no matter what we get, we will always swing between happiness and sadness (Industry Commission of Australia, 1996).

Secondly, people feel a sense of their own significance where they have made positive impact on other people they care about. The sense of significance grows with the size of the impact and the number of people affected. Thus if they save the world they will feel pretty significant.

Thirdly, people's sense of legacy has to do with what they leave behind themselves. Most of all, if they can establish values that help others find future success, and then they will feel a strong sense of success. The happiness and success theory suggests why it is important to involve employees in setting the performance contract goals so that they can derive happiness from their successes and hope to leave a legacy of key accomplishments (Brown,1996).

The first logical question is about the subjects' level of involvement. According to Ahorani (1986), when a person is emotionally involved in an issue they will process



information and hence react in a different way to when the issue is not important and they are not really paying attention to it. The involved people want to make their own decisions and the non-involved people do not want to put effort into decisions and will probably let you tell them what to think. Involved people want clear and sufficient information from which to draw conclusions. People can be encouraged to become non-involved people when they are snowed with a lot of complex information. Quantity may thus be inaccurately equated to quality.

According to emotional involvement theory, before implementing the performance contracts the government should try to draw people in, get them involved, before giving them things to do and letting them make decisions about the performance measurements evaluation criteria. In addition to this, the government should also understand the principle of action theory that there is no action without intentionality and we are able to get results after we have acted. In terms of performance, this theory explains why individuals will never act unless they have intentions (GoK,2004).

Another important theoretical view of analyzing the new performance contract policy in the public sector in Kenya is by employment of the adoption of innovations theory. According to Ahorani (1986), an innovation is an idea, practice, or object that is perceived new by an individual or other unit of adoption. The novelty in an innovation need not just involve new knowledge because some may have known about an innovation for some time but not yet developed a favorable attitude towards it, nor have adopted or rejected it. On the other hand, diffusion is defined as the process by which an innovation is communicated through certain channels over time among the members of a social system. It is the novelty of the idea in the message content of communication that gives diffusion its special character

## **2.5 Organizational Performance**

The success of any organization is dependent on several factors such as leadership management style, employees motivation and satisfaction levels, facilities eg computers, tools, etc and the political legal environments. Any or all of the factors listed above will determine the direction the organization is heading to in so far as its performance is concerned. If the said factors are implemented to its fullest then the rate of success will be higher but if haphazardly done will not lead to improved results and efficiency. Each includes regular recurring activities to establish organizational goals, monitor progress toward the goals, and make adjustments to achieve those goals more effectively and efficiently. Typically, these become integrated into the overall recurring management systems in the organization (as opposed to being used primarily in one-time projects for change (Brown,1996).

### **2.5.1 Organizational Performance Improvement Systems**

The following are organizational performance improvement systems which are used to measure performance in organizations in modern dynamic environment.

**Balanced Scorecard:** Focuses on four indicators, including customer perspective, internal-business processes, learning and growth and financials, to monitor progress toward organization's strategic goals and also use of standard measurements in a service industry for comparative purposes with other organizations (Brown,1996).

**Business Process Reengineering:** Aims to increase performance by radically re-designing the organization's structures and processes, including by starting over from the ground up. It focuses on improving customer satisfaction through continuous and incremental improvements to processes, including by removing unnecessary activities and variations. Continuous improvement is often perceived as a quality initiative (Dye,1992).

**Cultural Change:** Cultural change is a form of organizational transformation, that is, radical and fundamental form of change. Cultural change involves changing the basic values, norms, beliefs, etc., among members of the organization. Embracing quality standardization and recognition (Grinblatt and Titban,1989).

**Knowledge Management:** Focuses on collection and management of critical knowledge in an organization to increase its capacity for achieving results. Knowledge management often includes extensive use of computer technology. Its effectiveness toward reaching overall results for the organization depends on how well the enhanced, critical knowledge is applied in the organization.

**Management by Objectives (MBO):** Aims to align goals and subordinate objectives throughout the organization. Ideally, employees get strong input to identifying their objectives, time lines for completion, etc. Includes ongoing tracking and feedback in process to reach objectives. MBO's are often perceived as a form of planning.

**Program Evaluation:** Program evaluation is used for a wide variety of applications, e.g., to increase efficiencies of program processes and thereby cut costs, to assess if program goals were reached or not, to quality programs for accreditation, etc. Organization-wide process to identify strategic direction, including vision, mission, values and overall goals. Direction is pursued by implementing associated action plans, including multi-level goals, objectives, time lines and responsibilities. Strategic planning is, of course, a form of planning (Dye,2004).

**Total Quality Management (TQM):** Set of management practices throughout the organization to ensure the organization consistently meets or exceeds customer requirements. Strong focus on process measurement and controls as means of continuous improvement. TQM is a quality initiative (Lord and Lawrence,2001)



## **2.5.2 Measuring Organizational Performance**

Performance measures can be grouped into two basic types: those that relate to results (outputs or outcomes such as competitiveness or financial performance) and those that focus on the determinants of the results (inputs such as quality, flexibility, resource utilization, and innovation). This suggests that performance measurement frameworks can be built around the concepts of results and determinants.

The energy sector parastatals use the following parameters to carry out measurements of performance such as money, output/input relationships, customer focus, innovation and adaptation of change and human resources.

Within the operations area, standard individual performance measures could be productivity measures, quality measures, inventory measures, lead-time measures, preventive maintenance, performance to schedule, and utilization. Specific measures include: Cost of quality: measured as budgeted versus actual, variances: measured as standard absorbed cost versus actual expenses. Period expenses: measured as budgeted versus actual expenses. Safety: measured on some common scale such as number of hours without an accident. Profit contribution: measured in dollars or some common scale. Inventory turnover: measured as actual versus budgeted turnover (Gok, 2004).

While financial measures of performance are often used to gauge organizational performance, some firms have experienced negative consequences from relying solely on these measures. Kaplan and Norton's balanced scorecard approach operates from the perspective that more than financial data is needed to measure performance and that nonfinancial data should be included to adequately assess performance.

## **2.6 Developing a Performance Measurement Strategy**

The following steps indicate ways of developing a performance measurement strategy: Clearly define the firm's mission statement, identify the firm's strategic objectives using

the mission statement as a guide (profitability, market share, quality, cost, flexibility, dependability, and innovation), develop an understanding of each functional area's role in achieving the various strategic objectives, for each functional area, develop global performance measures capable of defining the firm's overall competitive position to top management, communicate strategic objectives and performance goals to lower levels in the organization and establish more specific performance criteria at each level (Dye,1992).

Periodically re evaluate the appropriateness of the established performance measurement system in view of the current competitive environment.

Finally, it is important that the performance measurement systems used by the management be continually reviewed and revised as the environment and economy changes. Failure to make the necessary modifications can inhibit the ability of the organization to be an effective and efficient global competitor

## **2.7 Performance Contracting in Kenya**

In order to move the implementation of the Public Service Response Performance forward, the Government developed and launched the Strategy for Performance Improvement in the Public Service in 2001. The Strategy sought to increase productivity and improve service delivery. It outlined the actions that were necessary to imbed long lasting and sustainable change in the way public services are offered. Underpinning this strategy was the Results Oriented Management (ROM) approach, which makes it necessary to adjust operations to respond to predetermined objectives, outputs and results. The adoption of this approach therefore demanded a paradigm shift in Government. This called for a transformation from a passive, inward-looking bureaucracy to one, which is pro-active, outward looking and results oriented; one that seeks 'customer satisfaction' and 'value for money'. Consequently, the ministries'/departments were required to develop strategic plans, which reflected their

objectives derived from the 9<sup>th</sup> National Development Plan, the Poverty Reduction Strategy Paper and based on the Medium Term Expenditure Framework (MTEF), Sectoral Priorities and Millennium development Goals. (<http://www.psrpc.go.ke> )

## **2.8 Processes of Implementation of Performance Contracts in Kenya**

The process of identifying performance targets is carried out after the budget process has been completed and institutions informed about their resource allocation. This ensures that targets are realistic and achievable within the available resources. The targets emanate from the institutions and are freely negotiated and not imposed arbitrarily by the government. The process of negotiation is carried out in two phases.

The first phase is the pre-negotiation consultations. At this stage the negotiating parties carry out a SWOT analysis in order to determine the institution's performance capacity. This helps to determine whether the targets being developed are realistic, achievable, measurable, growth oriented and benchmarked to performance of similar institutions. This stage in the process is a storming stage where parties hold lengthy meetings, often disagreeing but finally come to a consensus.

The second phase in the negotiation process is where all issues agreed upon are factored into the performance contract. The draft contract is then submitted to the performance-contracting secretariat for vetting. The vetting process ensures among other things that the contracts comply with the guidelines and that they are linked to the strategic objectives of the institutions, anchored on the strategic plans, growth oriented and relevant to the mandate of the institution.

The performance contracts are signed at two levels. In case of government ministries, the contract is signed between the Head of the Public Service and Secretary to the Cabinet, representing the Government on the one side and the Permanent Secretary of a Ministry on the other side. To ensure that Ministers, who represent the political body, are bound by

the commitments of their Permanent Secretaries, they are required to counter sign the Performance Contracts (GoK,2004).

In the case of state corporations, the first level is between the Government and the Board of Directors. The Permanent Secretary representing the parent ministry of the corporation signs with the Board of Directors on behalf of the government, while the board chair and one independent Director sign on behalf of the board. The board subsequently signs a performance contract with the Chief Executive to transfer the responsibility of achieving the targets to the management. This guarantees operational autonomy given that board of Directors are not executive and are not therefore involved in the day to day management of their corporations. Similar arrangements are replicated in the local authorities where the first level entails signing the contract between the Chairperson/Mayor of a council and the Permanent Secretary in charge of Local Government.

## 2.9 Criterion of Measuring Performance

The evaluation exercise is done ex ante. Thus, performance evaluation by the ad hoc evaluation committee is based on a comparison of achievements against the targets agreed at the signing of the contract. The negotiation of targets to be included in the contract is conducted by the ad hoc negotiation committee. The final contract is however between the government and the agency. The performance indicators are agency specific and are developed by the respective agencies upon agreeing on the targets (GoK,2004).

Performance	Criteria
Excellent	Achievement between 30 and 100% above target
Very Good	Achievement of target
Good	Achievement below target but above previous year
Fair	Achievement equal to previous year
Poor	Achievement below previous year

The actual achievements of the agencies are rated against the set performance targets negotiated and agreed upon at the beginning of the period. The resultant difference is resolved into weighted scores and ultimate performance denominated to a composite

score – the value of a weighted average of the raw scores in a performance agreement (Smith, 1999). The critical requirement for each target is that they must be growth oriented and therefore must be improving with time. The performance-rating instrument is based on the following attributes and criteria:

Performance evaluation is the most critical stage in the process of Performance Contracting. It is the culmination of the process of performance contracting. The outcome of the process is the composite score; by using the composite score, it is possible to compare the performance of one organization with that of the others, sort out good performers from the poor performers and rank them in order of performance (Dye,1992).

Performance evaluation is the measurement of the extent to which public agencies and managers achieve their negotiated performance targets.

At the end of the contract period, an evaluation of the performance of the agency is undertaken by an independent evaluation task force. It is important to note that Performance evaluation is carried out only once, at the end of the year. The Ad Hoc Negotiation task force is the one that converts to Evaluation task Force at the end of the year to carry out the evaluation exercise. The task force therefore doubles up as the Ad Hoc Evaluation team to evaluate performance of Ministries/Departments, State Corporations (in collaboration with Inspectorate of State corporations) and Local Authorities. The performance evaluation for each public agency is done by comparing the targets on the signed performance contract with the actual achievement at the end of the year.

The objective of evaluating the performance of public institutions is to ultimately determine the performance of the public service manager by computing the managerial composite score. The Composite Score of an agency is computed by summing up all the weighted scores of all the performance indicators in the Performance Contract. The Composite Score ranges from 1.00 to 5.00.

Performance evaluation focuses on both parties to the performance contract. In the case of the Government, the evaluation entails confirmation of whether or not the Government has fulfilled its obligations and commitments.

## **2.10 Opportunities and Challenges Associated With PC Implementation**

In many African countries, parastatals are confronted with many challenges, which constrain their delivery capacities (Lienert, 2003). They include the human resource factor, relating to shortages of the manpower in terms of numbers and key competencies, lack of appropriate mindsets and sociologist that are necessary to support effective service delivery. On the other hand, the gradual erosion of the ethics and accountability has continued to bedevil the public sector in the delivering of public services to the people effectively. Public sector reforms meant to address these challenges have achieved minimal results (AAPAM, 2005).

The effective implementation of performance contracting requires us to focus on the following questions: what is the outcome or change that we are looking for as a result of this contract? How will we measure and evaluate if the result has been achieved? How will contractor performance affect our management decisions? (AAPAM, 2005).

However, PC has some challenges. First, effectiveness measures, which examine whether the outcomes achieved were worthwhile and contained any long-term benefit, may be difficult to measure objectively (Dye, 1992). This is a great challenge to multinational banks in those monitoring costs for their subsidiaries.

Another challenge of PC is the failure to articulate precisely how the specific performance measure will be defined, calculated and reported during the contract duration (Grinblatt and Titman, 1989). If the outcome requires the reporting of a percentage, the measure field should define both the numerator and denominator of the calculation.

Departments may establish performance goals for the duration of the contract or may identify goals on an annual basis (either by year of the contract or by fiscal year) and amend the contract based on experience, available funding, changes in target population or other variables (Kiboi, 2006). Departments have three options to consider when identifying goals: actual performance data, contract specific goals for groups of contracts or for each individual contract to account for unique client needs, geographic consideration, funding levels or other variables that impact on performance and organization wide goals for all employees.

In some cases, it may be difficult to identify concrete outcomes or results for a service. For example, training and education services might be provided with the goal of disseminating information and modifying people's behaviour, however, it may be difficult or impossible to track participants and determine whether the training helped people to think and act differently. If a department is unable to identify performance outcomes for a specific service type, a meeting with head of the section and other departments may be useful to stimulate new ideas and share best practices (Korir, 2005).

In order for performance measures to be useful, it must be clear to everyone precisely what is being measured and how the measures are calculated. Achieving this degree of clarity between both the contractee and the contractor is one of the most difficult and challenging aspects of performance contracting. This will ensure that a contractor understands its responsibility and the data collected will be reliable (Musa, 2001).

Performance measure may involve the attainment of employment (PBMSIG, 2002). However, there are many opinions as to what constitutes a "job." It is the responsibility of the department to define that term in a way that addresses some of those unique characteristics of a job, such as any requirements concerning the number of hours worked each week, qualifying wage, benefit requirements and job retention requirements that, without being defined, might lead to disagreement between the contractors and the department. If a performance measure requires delivery within a specific timeframe, it

would be important to define “working” days or “calendar” days to avoid any confusion. It is also important to define how performance will be calculated if the measure includes percentages.



## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter presents the research design and methodology that was used to carry out the research. It presents the research design, the population, data collection and analysis.

### **3.2 Research Design**

This study was conducted through a survey research design. It is an empirical study which involves collecting information from a larger number of cases and it will make use of already available data. The survey research design was used since it enabled the researcher to conduct an extensive research in this field of performance contracting by providing both quantitative and qualitative data to be used for analysis in order to determine the outcome and impact of the performance contracting on the performance of the state corporations in the energy sector in Kenya.

In this survey a census was done since data was obtained from the entire population. This is the most appropriate since the population of study was small and studying the entire population therefore increased the reliability and validity of the findings.

The survey targeted the implementers of the performance contracting as the respondents. This included the performance contracting staff, head of divisions/sections, and the CEOs.

### **3.3 Data Collection**

The researcher used both primary and secondary data in order to collect views and opinions from the respondent issues regarding effect of performance contracting on performance of energy sector parastatals in Kenya. The researcher used a questionnaire, as the main tool for collecting data. The selection of the tool is guided by the nature of data to be collected the time available as well as by the objectives of the study. The main

objective of the study was to assess the impact of performance contracting on the performance of the energy sector corporations in Kenya. Such information was best collected by the use of close and open ended questions that enabled the researcher to collect quantitative data while open-ended questions enabled the researcher to collect qualitative data. The questionnaire was divided into two sections. Section one was concerned with the general information about respondents. Section two deals with the impact of performance contracting on service delivery at the energy sector parastatals in Kenya.

Document analysis technique was used to obtain secondary data from the records of the parastatals on performance. In document analysis the researcher went through reports that he was provided with and noted key information with regard to its performance and its rate of return on capital in order to come up with a well-informed data. Secondary data was also collected by use of desk search techniques from published reports and other documents. Secondary data included the parastatals' publications, journals, and periodicals.

### **3.4 Data Analysis**

Before processing the responses, the completed questionnaires were edited for completeness and consistency. The data was then coded to enable the responses to be grouped into various categories.

This study made use of existing data analysis software such as SPSS and Excel. The quantitative data was analyzed through the use of descriptive analysis techniques which is the use of measures of central tendencies which include the mean, median, mode, range quartile deviation, standard deviation and variance.

Inferential analysis techniques were also used to draw conclusions in any relationships that will be found in the research results. Some of the inferential analysis techniques that were used included correlation, Chi square, ANOVA (F-test) and regression analysis.

The data that was obtained from open-ended questionnaire items which was grouped under broad themes and then converted into frequency counts.

The findings were presented using tables and charts. The Likert scales were used to analyze the mean score and standard deviation, this helped in determining the extent to which the organization performance is affected by the various innovation strategies. Tables were used to summarize responses for further analysis and facilitate comparison.

## CHAPTER FOUR: DATA ANALYSIS RESULTS AND DISCUSSION

### 4.1 Introduction

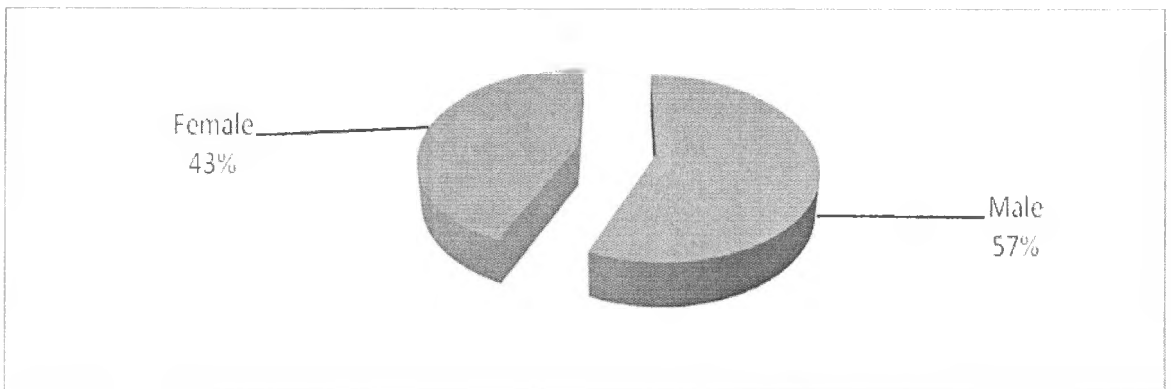
This chapter presents analysis and findings of the study as set out in the research methodology. The study findings are presented on to establish the effect of Performance Contracting Strategy on the performance of the energy sector corporations in Kenya. The data was gathered exclusively from the questionnaire as the research instrument. The questionnaire was designed in line with the objectives of the study.

#### 4.1.1 Response Rate

The study targeted 25 respondents in collecting data with regard to the effect of performance contracting on the performance of the energy sector corporations in Kenya. From the study, 23 out of the 25 sample respondents filled-in and returned the questionnaires making a response rate of 92%. This reasonable response rate was made a reality after the researcher made personal calls and visits to remind the respondent to fill-in and return the questionnaires.

#### 4.2 Demographic Information

**Figure 4. 1: Gender of the respondents**



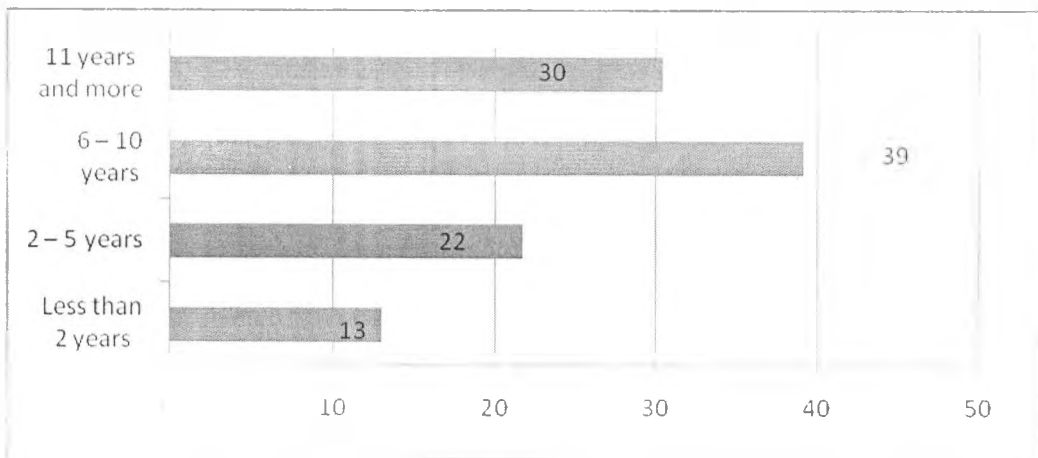
The study sought to find out the gender of the respondents. According to the findings, 57% of the respondents were male while 43% of the respondents were female.

**Table 4. 1: Age of the respondents**

	Frequency	percentage
25 - 34 Years	5	22
35 - 44 years	8	35
45 – 54 years	6	26
Over 55 years	4	17
Total	23	100

The study sought to find out the age of the respondents. According to the findings, 35% of the respondents were aged 35-44 years, 26% of the respondents were aged 45-54 years, 22% of the respondents were aged 25-34 years and 17% of the respondents were aged over 55 years.

**Figure 4. 2: Period the respondents had served in the energy corporations**



The study sought to find out the period the respondents had served in the energy corporations. From the findings, 39% of the respondents had served in the energy corporations for 6-10 years, 30% of the respondents had served in the energy corporations for 11 years and more, 22% of the respondents had served in the energy

corporations for 2-5 years and 13% of the respondents had served in the energy corporations for less than 2 years.

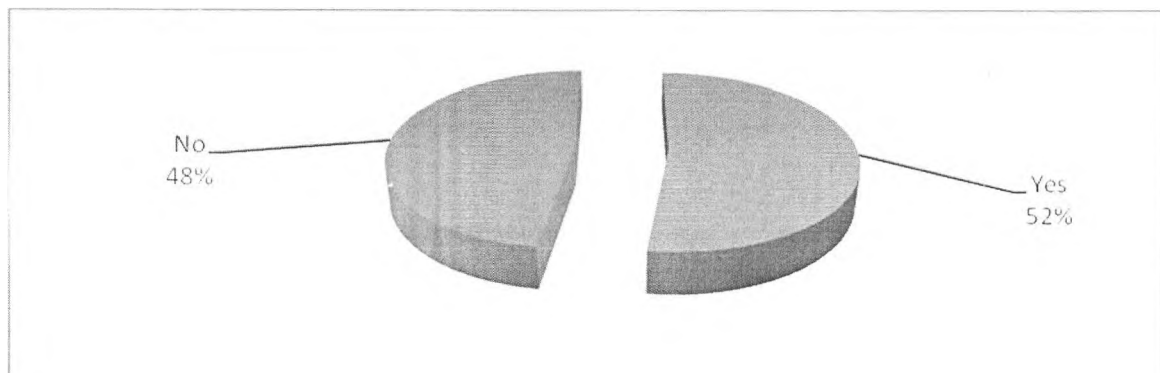
**Table 4. 2: Highest level of education of the respondents**

	frequency	percentage
Diploma Certificate	2	9
Diploma	1	4
Higher National Diploma	4	17
Bachelors	9	39
Masters	5	22
PhD	2	9
Total	23	100

The study sought to find out the highest level of education of the respondents. According to the findings, 39% of the respondents had Bachelors degree, 22% of the respondents had a Masters, 17% of the respondents had a Higher National Diploma, 9% of the respondents had a Diploma Certificate, 9% of the respondents had a PhD and 4% of the respondents had a Diploma.

### 4.3 Performance Contracts

**Figure 4. 3: If the respondents had ever signed a performance contract with the energy corporation**



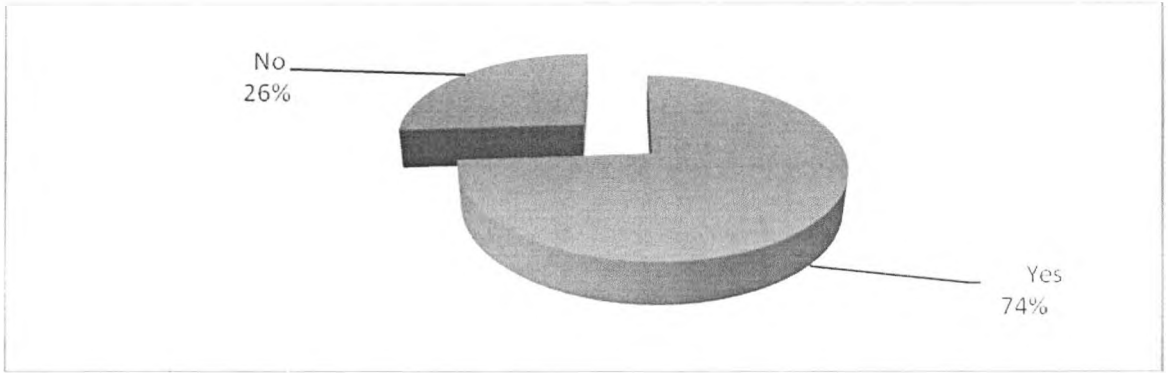
The study sought to find out if the respondents had ever signed a performance contract with the energy corporation. From the findings, 52% of the respondents had signed a performance contract with the energy corporation while 48% of the respondents had never signed a performance contract with the energy corporation.

**Table 4. 3: Respondents agreement level that the individual and the organisational performance at the energy corporations being directed towards achieving at the objectives were set out in the Performance Contract**

	Frequency	percentage
Strongly agree	7	30
Agree	8	35
Neutral	3	13
Disagree	2	9
Strongly disagree	3	13
Total	23	100

The study sought to find out the respondents agreement level that the individual and the organisational performance at the energy corporations being directed towards achieving at the objectives were set out in the performance contract. From the findings, 35% of the respondents agreed that the individual and the organisational performance at the energy corporations being directed towards achieving at the objectives were set out in the performance contract, 30% of the respondents strongly agreed, 13% of the respondents were neutral, 13% of the respondents strongly disagreed and 9% of the respondents disagreed.

**Figure 4. 4: If Performance contract enhanced the ability to discharge the duties**



The study sought to find out if performance contract enhanced the ability to discharge the duties. According to the findings, 74% of the respondents indicated that performance contract enhanced the ability to discharge the duties while 26% of the respondents indicated that performance contract did not enhance the ability to discharge the duties.

**4.3.1 Efficiency**

**Table 4. 4: Extent that adoption of PC at the energy corporations improved the level of performance in the organization**

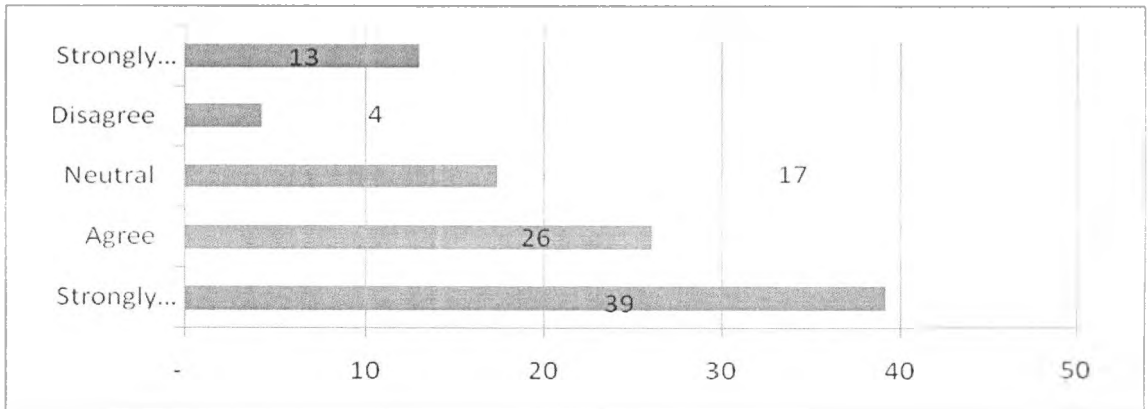
	frequency	percentage
Very great extent	12	52
Great extent	6	26
Moderate extent	3	13
Little extent	1	4
Not at all	1	4
Total	23	100

The study sought to find out the extent that adoption of PC at the energy corporations improved the level of performance in the organization. According to the findings, 52% of the respondents indicated that adoption of PC at the energy corporations improved the level of performance in the organization to a very great extent, 26% of the respondents indicated that adoption of PC at the energy corporations improved the level of



performance in the organization to a great extent, 13% of the respondents indicated that adoption of PC at the energy corporations improved the level of performance in the organization to a moderate extent, 4% of the respondents indicated that adoption of PC at the energy corporations improved the level of performance in the organization to a little extent and 4% of the respondents indicated that adoption of PC at the energy corporations did not at all improve the level of performance in the organization.

**Figure 4. 5: Respondents' agreement level with statement that doing the job efficiently was the central theme of the Public Sector reform**



The study sought to find out the respondents' agreement level with statement that doing the job efficiently was the central theme of the public sector reform. From the findings, 39% of the respondents strongly agreed that doing the job efficiently was the central theme of the public sector reform, 26% of the respondents agreed, 17% of the respondents were neutral, 13% of the respondents strongly disagreed, 4% of the respondents agreed.

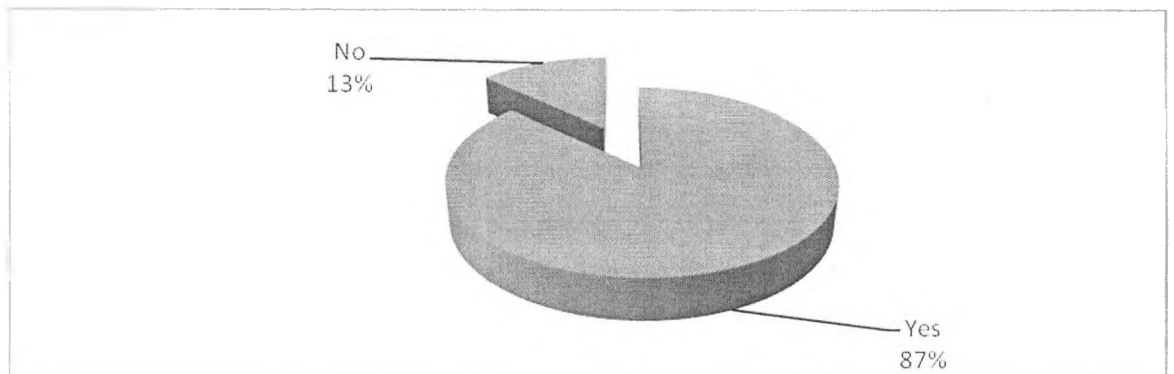
**Table 4 . 5: Respondents’ agreement level that Inter-administrative comparison circles at the local administrative level was introduced in order to increase efficiency at the Energy Corporation**

	Frequency	percentage
Strongly agree	6	26
Agree	10	43
Neutral	4	17
Disagree	2	9
Strongly disagree	1	4
Total	23	100

The study sought to find out the respondents’ agreement level that inter-administrative comparison circles at the local administrative level was introduced in order to increase efficiency at the energy corporation. From the findings, 43% of the respondents agreed that inter-administrative comparison circles at the local administrative level was introduced in order to increase efficiency at the energy corporation, 26% of the respondents strongly agreed, 17% of the respondents were neutral, 9% of the respondents disagreed and 4% of the respondents strongly disagreed.

#### 4.3.2 Enhanced Consistency

**Figure 4. 6: Whether PC enhanced consistency in revenue collection at the energy corporation**



The study sought to find out whether PC enhanced consistency in revenue collection at the energy corporation. According to the findings, 87% of the respondents indicated that

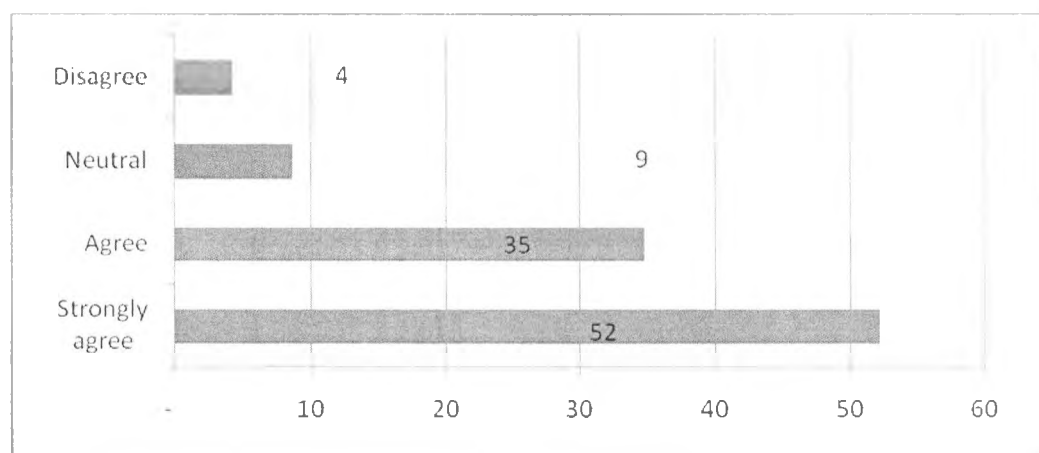
PC enhanced consistency in revenue collection at the energy corporation while, 13% of the respondents indicated that PC did not enhance consistency in revenue collection at the energy corporation.

**Table 4. 6: Extent that PC enhanced consistency in revenue collection at the the energy corporation**

	frequency	percentage
Very great extent	10	43
Great extent	6	26
Moderate extent	4	17
Little extent	2	9
Not at all	1	4
Total	23	100

The study sought to find out the extent that PC enhanced consistency in revenue collection at the the energy corporation. According to the findings, 43% of the respondents indicated that PC enhanced consistency in revenue collection at the the energy corporation to a very great extent, 26% of the respondents indicated that PC enhanced consistency in revenue collection at the the energy corporation to a great extent, 17% of the respondents indicated that PC enhanced consistency in revenue collection at the the energy corporation to a moderate extent, 9% of the respondents indicated that PC enhanced consistency in revenue collection at the the energy corporation to a little extent and 4% of the respondents indicated that PC did not at all enhance consistency in revenue collection at the the energy corporation.

**Figure 4. 7: Respondents’ agreement level with integrating the action plans of the departments through Performance Contracts is a way of checking the consistency of decisions taken**



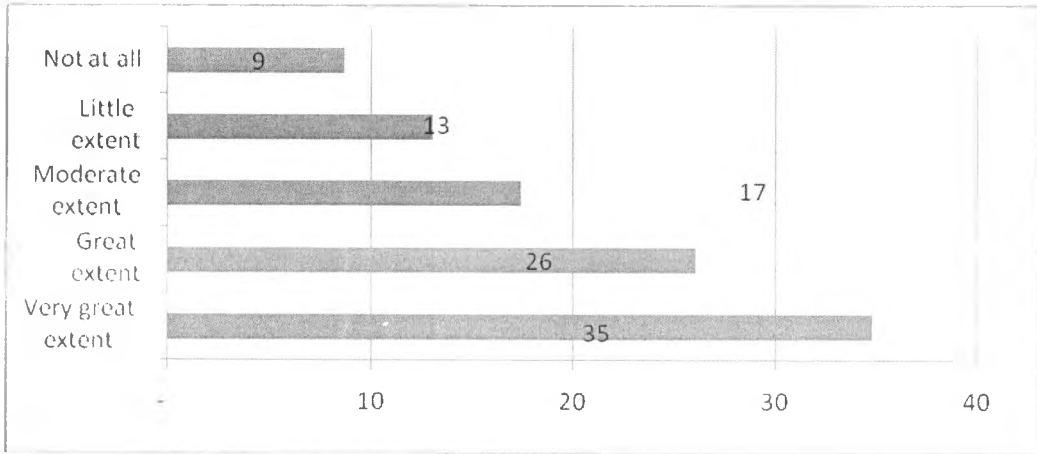
The study sought to find out the respondents’ agreement level with integrating the action plans of the departments through performance contracts is a way of checking the consistency of decisions taken. From the findings, 52% of the respondents strongly agreed that integrating the action plans of the departments through performance contracts is a way of checking the consistency of decisions taken, 35% of the respondents agreed, 9% of the respondents were neutral, 4% of the respondents disagreed.

**Table 4. 7: If performance contracting promoted commitment in revenue collection at the Energy Corporation**

	Frequency	percentage
Yes	18	78
No	5	22
Total	23	100

The study sought to find out if performance contracting promoted commitment in revenue collection at the energy corporation. According to the findings, 78% of the respondents indicated that performance contracting promoted commitment in revenue collection at the energy corporation while 22% of the respondents indicated that performance contracting did not promote commitment in revenue collection at the energy corporation.

**Figure 4. 8: Extent that performance contracting promoted commitment in revenue collection at the energy corporation**



The study sought to find out the extent that performance contracting promoted commitment in revenue collection at the energy corporation. According to the findings, 35% of the respondents indicated that performance contracting promoted commitment in revenue collection at the energy corporation to a very great extent, 26% of the respondents indicated that performance contracting promoted commitment in revenue collection at the energy corporation to a great extent, 17% of the respondents indicated that performance contracting promoted commitment in revenue collection at the energy corporation to a moderate extent, 13% of the respondents indicated that performance contracting promoted commitment in revenue collection at the energy corporation to a little extent, 9% of the respondents indicated that performance contracting did not at all promote commitment in revenue collection at the energy corporation.

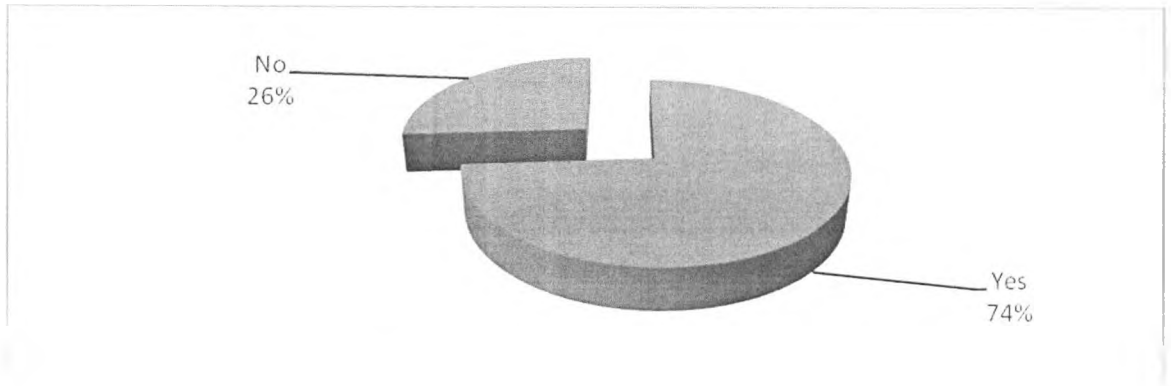
**Table 4. 8: Respondents’ agreement level with Integration of HR strategists with PC promoted positive work attitudes and behavior at this energy sector corporation ?**

	Frequency	percentage
Strongly agree	6	26
Agree	8	35
Neutral	6	26
Disagreed	2	9
Strongly disagree	1	4
Total	23	100

The study sought to find out the respondents’ agreement level with integration of HR strategists with PC promoted positive work attitudes and behavior at the Energy Sector Corporations. From the findings, 35% of the respondents agreed that integration of HR strategists with PC promoted positive work attitudes and behavior at the council, 26% of the respondents strongly agreed, 26% of the respondents were neutral, 9% of the respondents disagreed and 4% of the respondents strongly disagreed.

#### 4.3.3 Creativity

**Figure 4. 9: Whether in the past one year the respondents had come-up with a new idea/product/service to enhance revenue collection at this energy corporation**



The study sought to find out whether in the past one year the respondents had come-up with a new idea/product/service to enhance revenue collection at this energy corporation. According to the findings, 74% of the respondents indicated that in the past one year they had come-up with a new idea/product/service to enhance revenue collection at this energy

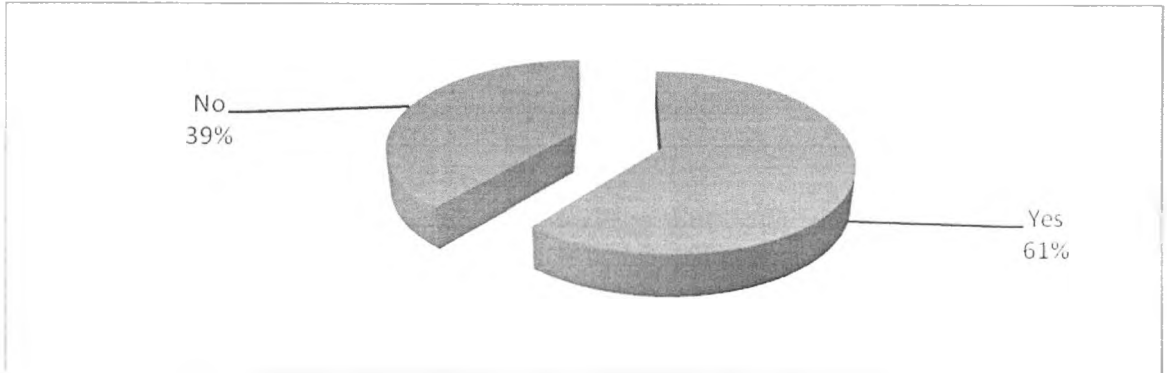
corporation while 26% of the respondents indicated that in the past one year they had not come-up with a new idea/product/service to enhance revenue collection at this energy corporation.

**Table 4. 9: Motivating factor for the respondents to to come up with the idea/product or service**

	frequency	percentage
Moral obligation	6	26
Added duty	7	30
Terms of Performance contract	7	30
Pressure from your seniors	2	9
Personal ambition	1	4
Total	23	100

The study sought to find out the motivating factor for the respondents to come up with the idea/product or service. According to the findings, 30% of the respondents indicated that they were motivated by added duties to come up with the idea/product or service, 30% of the respondents indicated that they were motivated by terms of performance contract to come up with the idea/product or service, 26% of the respondents indicated that they were motivated by moral obligation to come up with the idea/product or service, 9% of the respondents indicated that they were motivated by pressure from the seniors to come up with the idea/product or service and 4% of the respondents indicated that they were motivated by personal ambition to come up with the idea/product or service.

**Figure 4. 10: If the respondents got remunerated when they did something to improve the revenue collection at this energy corporation off the terms in the performance contract**



The study sought to find out if the respondents got remunerated when they did something to improve the revenue collection at this energy corporation off the terms in the performance contract. According to the findings, 61% of the respondents indicated that they got remunerated when they did something to improve the revenue collection at this energy corporation off the terms in the performance contract while 39% of the respondents indicated that they did not get remunerated when they did something to improve the revenue collection at the energy corporation off the terms in the performance contract.

**Table 4. 10: Extent there were challenges in the implementation of the performance contracting program in the energy corporations**

	Frequency	percentage
Very great extent	4	17
Great extent	5	22
Moderate extent	7	30
Little extent	6	26
Not at all	1	4
Total	23	100

The study sought to find out the extent there were challenges in the implementation of the performance contracting program in the energy corporations. According to the findings, 30% of the respondents indicated that there were challenges in the implementation of the



performance contracting program in the energy corporations to a moderate extent, 26% of the respondents indicated that there were challenges in the implementation of the performance contracting program in the energy corporations to little extent, 22% of the respondents indicated that there were challenges in the implementation of the performance contracting program in the energy corporations to a great extent, 17% of the respondents indicated that there were challenges in the implementation of the performance contracting program in the energy corporations to a very great extent and 4% of the respondents indicated that there were no challenges in the implementation of the performance contracting program in the energy corporations at all.

#### **4.4 Discussions**

The study found out that adoption of PC at the energy corporations improved the level of performance. PC also enhanced consistency in revenue collection and integrates action plans of the departments.

This relates to the literature review as the objective of evaluating the performance of public institutions is to ultimately determine the performance of the public service manager by computing the managerial composite score.

According to Brown (1996) PC improves organizational performance in general and is dependent on a number of factors such management styles, leadership, effective strategic plans and political/legal environment. These factors are critical in ensuring the PC is implemented thus giving positive results or outputs.

Thus, generally the findings of this, is consistent with empirical findings.

## **CHAPTER FIVE: SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Introduction**

The chapter provides the summary of the findings from chapter four, and it also gives the conclusions and recommendations of the study based on the objectives of the study. The objectives of this study were to investigate the effect of performance contracting on the performance of the energy sector corporations in Kenya.

### **5.2 Summary of the Findings**

The study aimed at investigating the effect of performance contracting on the performance of the energy sector corporations in Kenya. The study found that 52% of the respondents had signed a performance contract with the energy corporation. 35% of the respondents agreed that the individual and the organisational performance at the energy corporations being directed towards achieving at the objectives were set out in the performance contract. 74% of the respondents indicated that performance contract enhanced the ability to discharge the duties.

#### **5.2.1 Efficiency**

The study found that 52% of the respondents indicated that adoption of PC at the energy corporations improved the level of performance in the organization to a very great extent. 39% of the respondents strongly agreed that doing the job efficiently was the central theme of the public sector reform. 43% of the respondents agreed that inter-administrative comparison circles at the local administrative level was introduced in order to increase efficiency at the energy corporation.

#### **5.2.2 Enhanced Consistency**

The study found that 87% of the respondents indicated that PC enhanced consistency in revenue collection at the energy corporation. 43% of the respondents indicated that PC

enhanced consistency in revenue collection at the the energy corporation to a very great extent. 52% of the respondents strongly agreed that integrating the action plans of the departments through performance contracts is a way of checking the consistency of decisions taken. 78% of the respondents indicated that performance contracting promoted commitment in revenue collection at the energy corporation. 35% of the respondents indicated that performance contracting promoted commitment in revenue collection at the energy corporation to a very great extent. 35% of the respondents agreed that integration of HR strategists with PC promoted positive work attitudes and behavior at the council.

### **5.2.3 Creativity**

The study found that 74% of the respondents indicated that in the past one year they had come-up with a new idea/product/service to enhance revenue collection at this energy corporation. 30% of the respondents indicated that they were motivated by added duties to come up with the idea/product or service. 61% of the respondents indicated that they got remunerated when they did something to improve the revenue collection at this energy corporation off the terms in the performance contract. 30% of the respondents indicated that there were challenges in the implementation of the performance contracting program in the energy corporations to a moderate extent.

### **5.3 Conclusions**

The study concludes that some staffs had signed a performance contract with the energy corporation. The individual and the organisational performance at the energy corporations being directed towards achieving at the objectives were set out in the performance contract. Performance contract enhanced the ability to discharge the duties.

The study concludes that adoption of PC at the energy corporations improved the level of performance in the organization to a very great extent. Doing the job efficiently was the central theme of the public sector reform. Inter-administrative comparison circles at the

local administrative level was introduced in order to increase efficiency at the energy corporation.

The study concludes that PC enhanced consistency in revenue collection at the energy corporation. PC enhanced consistency in revenue collection at the the energy corporation to a very great extent. Integrating the action plans of the departments through performance contracts is a way of checking the consistency of decisions taken. Performance contracting promoted commitment in revenue collection at the energy corporation. Performance contracting promoted commitment in revenue collection at the energy corporation to a very great extent. Integration of HR strategists with PC promoted positive work attitudes and behavior at the council.

The study concludes that in the past one year they had come-up with a new idea/product/service to enhance revenue collection at this energy corporation. The staffs were motivated by added duties to come up with the idea/product or service. They got remunerated when they did something to improve the revenue collection at this energy corporation off the terms in the performance contract. There were challenges in the implementation of the performance contracting program in the energy corporations to a moderate extent.

#### **5.4 Recommendations**

The study recommends the government to implement the performance contract at the energy sector. The PC should be directed towards achieving the objectives of the organization and individual targets.

The PC at the energy corporations should be set in a way it will improve the level of performance in the organization. Inter-administrative comparison circles at the local administrative level need tyo be introduced in order to increase efficiency at the energy corporation.

The study recommends the government to structure the PC in a way it will enhance consistency in revenue collection at the energy corporation.

The study recommends the government to motivate the staffs and encourage them come-up with a new idea/product/service to enhance revenue collection at the energy corporation.

### **5.5 Recommendation for Further Studies**

This study has reviewed the study on the effect of performance contracting on the performance of the energy sector corporations in Kenya. The study was carried out at the energy corporation thus the same study should be carried out in other government sectors to find out if the same findings will be obtained.

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## APPENDICES:

### Appendix: Research Questionnaire:

#### THE IMPACT OF PERFORMANCE CONTRACTING ON PERFORMANCE OF ENERGY SECTOR PARASTATALS IN KENYA

##### SECTION A: DEMOGRAPHIC INFORMATION

1. Gender: Male  Female

2. Your age bracket (Tick whichever appropriate)

25 - 34 Years

35 - 44 years

45 – 54 years

Over 55 years

3. For how long have you served in the energy corporations?

Less than 2 years	<input type="checkbox"/>
2 – 5 years	<input type="checkbox"/>
6 – 10 years	<input type="checkbox"/>
11 years and more	<input type="checkbox"/>

What is your highest level of education?

Diploma Certificate	<input type="checkbox"/>
Higher National diploma	<input type="checkbox"/>
Bachelors	<input type="checkbox"/>
Masters	<input type="checkbox"/>
Phd	<input type="checkbox"/>

**SECTION B: PERFORMANCE CONTRACTS**

4. Have you ever signed a performance contract with the this energy corporation?

Yes [ ] No [ ]

5. What is your agreement that the individual and the organisational performance at this energy corporations being directed towards achieving at the objectives set out in the performance contract?

Strongly agree [ ]

Agree [ ]

Neutral [ ]

Disagree [ ]

Strongly disagree [ ]

I don't know [ ]

6. Has performance contract enhanced your ability to discharge your duties?

Yes [ ] No [ ]

**SECTION C: PERFORMANCE CONTRACT ON PERFORMANCE**

**LEVEL OF PERFORMANCE**

**IMPROVED EFFICIENCY**

7. To what extent does adoption of PC at the energy corporations improved the level of performance in your organization?

8. “Doing the job efficiently was the central theme of the public sector reform” to what extent do you agree with this statement?

Strongly agree [ ]

Agree [ ]

Neutral [ ]

Disagree [ ]

Strongly disagree [ ]

I don't know [ ]

9. To what extent do you agree that the Inter-administrative comparison circles at the local administrative level were introduced in order to increase efficiency at this energy corporation?

- Strongly agree [ ]
- Agree [ ]
- Neutral [ ]
- Disagree [ ]
- Strongly disagree [ ]

**Enhanced Consistency**

10. Does PC enhance consistency in revenue collection at this energy corporation?

11. , to what extent does PC enhance consistency in revenue collection at the this energy corporation?

Very great extent [ ]

Great extent [ ]

Moderate extent [ ]

Little extent [ ]

Not at all [ ]

12. Integrating the action plans of the departments through performance contracts is a way of checking the consistency of decisions taken. What is your level of agreement *with the statement?*

Strongly agree [ ]

Agree [ ]

Neutral [ ]

Disagree [ ]

Strongly disagree [ ]

13. Does performance contracting promote commitment in revenue collection at the energy corporations?

Yes [ ]

No [ ]

14. If yes to what extent?

Very great extent [ ]

Great extent [ ]

Moderate extent [ ]

Little extent [ ]

Not at all [ ]

15. Integration of HR strategists with PC promotes positive work attitudes and behavior at the energy sector Corporations. To what extent do you agree with the statement?

Strongly agree [ ]

Agree [ ]

Neutral [ ]

Disagree [ ]

Strongly disagree [ ]

### CREATIVITY

16. In the past one year have you come-up with a new idea/product/service to enhance revenue collection at the energy corporations?

Yes [ ]

No [ ]

If yes in question above, what motivated you to come up with the idea/product or service?

Moral obligation [ ]

Added duty [ ]

Terms of Performance contract [ ]

Pressure from your seniors [ ]

Personal ambition [ ]

17. Do you get remunerated when you do something to improve the revenue collection at this energy corporation off the terms in the performance contract?

Yes [ ]

No [ ]

18. To what extent are there challenges in the implementation of the performance contracting program in the energy corporations?

Very great extent [ ]

Great extent [ ]

Moderate extent [ ]

Little extent [ ]

Not at all [ ]

**End**

*(Thank You Very Much for Your time and attention)*