THE DETERMINANTS INFLUENCING IMPLEMENTATION OF PERFORMANCE
CONTRACTING IN KENYA REVENUE AUTHORITY

BY

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DECLARATION

This research project is my original work and has not been presented for a degree in any other university or for any other award

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DEDICATION

This research project is dedicated to my husband, Tarus Koech, for his encouragement and support during my study, to our children Anita Chebet & Amelle Cheptoo who should be inspired by this work and to my Parents Mr & Mrs Nthiga whom I consider a milestone in supporting my Life and education. Above all to the almighty God for his help throughout my life.
ACKNOWLEDGEMENT

I owe my gratitude to many individuals and groups who have supported me, both morally and materially in ensuring the success of my research project. It is difficult to appreciate their effort individually by mentioning their names. It is my wish and hope that my sincere appreciation will be taken positively for their encouragement and motivation which has a driving force for this work. However, a few of them deserve my recognition by identifying them by name.

Foremost, to be appreciated is Muathe SMA, & Mr. Shadrack Bett, who are providing invaluable guidance and inspiration by ensuring that I complete the research project. Special mention also goes to Kenya Revenue Authority management for their support both financially and with information. Further, it is important to thank all lecturers and students who co-operated in ensuring that I completed part 1 of MBA course successfully. The students played a key role in group discussion.

Last, but not least, I thank my husband for his great support both as a classmate and a companion and children for their patience, perseverance and support offered in different ways. My gratitude also goes to my mother and father Mr & Mrs Nthiga for their contribution since childhood.
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DEFINITION OF TERMS

Performance contracting- It is part of the broader public sector reforms aimed at improving efficiency and effectiveness in the management of public affairs.

Training- refers to the acquisition of knowledge, skills, and competencies as a result of the teaching of practical skills and knowledge that relate to specific useful competencies.

Resource- is any physical or virtual entity of limited availability that needs to be consumed to obtain a benefit from it.

Motivation- In today’s turbulent, often chaotic, environment, commercial success depends on employees using their full talents.

Set Standards- This refers a degree or level of requirement, excellence, or attainment, the set standards forms a basis for implementation of performance.

Reliability- It is the measure of the degree to which a research instrument yields consistent results or data after repeated trials.

Validity- It is the accuracy and meaningfulness of inferences, which are based on the research result. In other words, validity is the degree to which results obtained from analysis of the data actually represents the phenomena under study.
<table>
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<tr>
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<tr>
<td>AAPAM</td>
<td>African association for Public Administration and Management</td>
</tr>
<tr>
<td>CG</td>
<td>Commissioner General</td>
</tr>
<tr>
<td>CSD</td>
<td>Customs Services Department</td>
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<tr>
<td>DR</td>
<td>Domestic revenue</td>
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<tr>
<td>DTD</td>
<td>Domestic Taxes department</td>
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<tr>
<td>ERS</td>
<td>Economic Recovery Strategy</td>
</tr>
<tr>
<td>FY</td>
<td>Financial Year</td>
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<tr>
<td>GOK</td>
<td>Government of Kenya</td>
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<td>KRA</td>
<td>Kenya Revenue Authority</td>
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<tr>
<td>LTO</td>
<td>Large Taxpayers Office</td>
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<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
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<td>PCs</td>
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<td>PCSC</td>
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<td>RTD</td>
<td>Road Transport Department</td>
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ABSTRACT

State Corporation reforms have become a common phenomenon around the globe, especially in developing countries. These have become the way of responding to the needs of the taxpayers both internal and external. One of the key priorities of the Kenya Government is to implement and institutionalize State Corporation reforms that would lead to an efficient, effective and ethical delivery of services to the citizens. The government started implementing State Corporation reforms way back in 1993 with the aim of improving service delivery. One such intervention relates to performance contracting in the state corporation and government ministries. Therefore this study aimed at finding out determinants influencing performance contracting in Kenya Revenue Authority. The study employed a descriptive survey design, targeting 932 members of staff participants drawn from all the departments of KRA in Nairobi. The study sample comprised of 93 respondents selected using proportionate stratified sampling technique. The study utilized questionnaires for data collection. Descriptive statistics were used to analyze the quantitative data and the analyzed data was reported using frequency distribution, means and percentages. Qualitative technique specifically content analysis was used to analyze the open-ended questions. Data was analyzed using SPSS version 12 and the results of data analysis presented inform of tables and graphs. The study found that performance contracts have had varied impact on KRA performance. Further, the study revealed that KRA had committed resources in the implementation of the performance contracting. Moreover, the study established that most respondents were not adequately trained to deal with the matters of performance contracting. Proper setting of objectives and strategies on the way parastatals want to do their business. This definition of objectives and strategies and how to achieve these objectives helps in defining the direction the organization will follow in implementing its duties and roles. the study can infer from the improved financial performance that performance contracting as a management tool has encouraged proper utilization of resources. Lastly, involvement in the setting of targets has encouraged participation in the decision making process of the organizations. This has reduced the error of making wrong decisions in the execution of the organizations' objectives and mandate.
There should however be proper training of staff and enhance motivation. Most employees were not adequately trained and therefore the authority should intensify training, from the findings most employees were not involved in setting of primary targets and this affected their output and performance, all employees need to be involved in the setting of targets so that they can own the whole process.
CHAPTER ONE
INTRODUCTION

1.1 Background of the Study
The concept of performance Contracting was first introduced in the management of state corporations in 1989. A Parastatal Reform Strategy Paper, which was approved by cabinet in 1991, was the first official recognition of the concept of Performance Contracting as it was part of the following policies that were recommended to streamline and improve the performance of State Corporations (GOK, 1990).

State corporations in many African countries 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 socio psychological dispositions. There is also the perennial problem of the shortage of financial and material logistics that are necessary to support effective service delivery. On the other hand, the gradual erosion of the ethics and accountability has continued to bedevil the public sector in delivering state corporations to the people effectively. Public sector reforms meant to address these challenges have achieved minimal results (AAPAM, 2005).

The Kenyan Government responded to state corporation delivery challenges by formulating and implementing Public Sector Reforms (PRS) way back in 1993. The program implementation was in three phases. The first phase focused on cost containment, which entailed staff rightsizing initiatives and rationalization of government functions and structures. Under the first phase, a Voluntary Early Retirement Scheme was put in place that targeted civil servants in job group A-G in which 42,132 civil servants retired.

The second phase of the reform program focused on rationalization of government ministries/departments to determine appropriate structures and optimal size of the civil service for effective performance of the government’s core functions within budgetary
limits. As a result of rationalization exercise, 23,448 civil servants who were occupying posts that were no longer required were retrenched by year 2000. Both phases of the reform coupled with the embargo on recruitment reduced the core civil servants size from 272,000 in 1992 to 191,670 in 2003 (GOK, 2004). While there was a reduction in the size of the core civil service of about 30%, it was noted that productivity and performance in the state corporation was not as expected (Opiyo, 2006). Further reform initiatives targeting performance improvement and management in the state corporation were required, thus introducing the third phase of the public sector reforms guided by Economic Recovery policy direction (DPM, 2004).

AAPAM (2006) the government accords high priority to economic recovery and improving the performance of State Corporation to deliver results to the people. Up to this point, the goal of public sector reform was the restoration so as to equip it well in order to play a pivotal role in national development. This called for fundamental changes in the way the sector operates in institutional organization and relationships, and in the individual and collective behavior of those serving in the sector. The aim is to enhance efficiency and effectiveness together with probity and integrity. In effort to achieve the objectives and targets of ERS and to manage performance challenges in State Corporation, the Government adopted Performance Contracting (PC) in public sectors as a strategy for improving service delivery to Kenyans. The Performance Contract is one element of the broader public sector reforms aimed at improving efficiency and effectiveness, while reducing total costs.

The problems that have inhibited the performance of government agencies are largely common and have been identified as excessive controls, multiplicity of principals, frequent political interference, poor management and outright mismanagement (Hood, 1991). Different approaches to public sector management have been employed to address these challenges. Among these measures is performance contracting. It includes using relevant expertise such as financial, legal and probity; making provisions for appropriate access to records and premises by agency and the Auditor-General to allow them have sufficient
access to fulfill respective accountability requirements. It is also intended to establish clear mechanisms for assessing and monitoring performance under the contract, including consideration of the use of sanctions and incentives to achieve the contracted results (Hood, 1991). The Financial Management and Accountability Act, 1997, Section 44 states clearly that chief executives must manage the affairs of an Agency in a way that promotes proper use, that is, efficient, effective and ethical use of public resources for which the executives are responsible. It is for the above reason that the government introduced performance contracting to addresses these economic, social or other tasks that an agency has to discharge for economic performance or for other desired results (AAPAM, 2006).

This Performance Contracts was modeled on France model of 1967. This among other things proposed that Program Contracts be drawn to increase the operational autonomy of public enterprises and restrict the role of the state fixing the rules of the game. The state was now required to decide what goals an enterprise ought to pursue, what are the legal boundaries for its operations and then, leave the public enterprise free to achieve these goals without further meddling.

1.1.1 Performance Contracting in Kenya
Governments all over the world are increasingly faced with the challenge to improve delivery of service to the public. Performance contracts have their origins in the general perception that the performance of the public sector in general and government agencies in particular has consistently fallen below the expectations of the public (AAPAM, 2006). One of the significant management reforms in the state corporation in recent times aimed at addressing the agency problem has been the introduction of performance contracts. This was made to improve efficiency and effectiveness in the management of the State Corporation.

GOK (2004) highlighted governance of public sector enterprises as the government’s main concern. The underlying concern noted was the realization that poor public governance had led to wastage and misuse of public resources. Management of the Kenyan State
Corporations was previously dogged by political interference. Issues of political, tribal, ethnic and political patronage were rampant in ensuring appointments to the running of state corporations. The resultant performance of these corporations deteriorated. In addition, donor agencies and World Bank were also increasingly demanding good corporate governance as a condition for aid, citing adoption of the same in a number of African countries including Nigeria and Ghana (AAPAM, 2006). There was therefore a need to shift focus to good corporate governance practices in state corporations. The Economic Recovery for Wealth and Employment Creation strategy paper therefore recommended introduction and implementation of performance contracts for CEO’s and departmental heads to improve performance of state corporations.

State corporations are established by different laws with different provisions, some of which may be inconsistent with requirement to implement Performance Contracts (PC). Legal Notice No. 93, a subsidiary legislation to the State Corporations Act, Cap 446, on 10th August 2004 (GOK, 2004). The purpose of the legal notice was to provide a legal basis for the implementation of performance contracts in State Corporations and to set out the obligations, duties and responsibilities of the parties to the PC. These parties are Board of Directors, Parent Ministry, The Treasury, Inspector-General (Corporations) and State Corporations Advisory Committee. It also provides for the removal of an executive of a state corporation whose performance is unsatisfactory after evaluation. Minister for Finance developed guidelines on incentives and sanctions for, respectively, achievement and non-achievement of agreed performance targets.

The contracts became effective from 1st July 2004. The contracts defined the relationship between the Government and the parastatals and articulate agreed targets against which the performance was evaluated. The Government developed performance incentives for boards of state corporations which meet the agreed targets, while, as a shareholder, it will have the right to call for removal of nonperforming director(s) by the shareholders.
There have been several sensitization seminars and workshops organized by the government and professional bodies like Institute of Certified Public Accountants of Kenya (ICPAK). These have acted as a follow up to the performance contracting steering committee initiatives.

In Kenya, it is evident that the success of performance contracting is premised on the existence of performance information, performance evaluation and incentive systems. Will the Government act on the basis of whether or not one has achieved the performance targets? Are the parastatal chiefs and departmental heads insulated from political interference so that they can be soberly judged? The reason for raising these questions is that we have seen in recent cases top performing parastatal chiefs being sent home, while some non-performers with political connections, being kept on.

Given its focus on improving service delivery and the results orientation, Kenya Revenue Authority adopted performance contracting in 2005/06 financial year when its Board entered into a contract with the Ministry of Finance on 30th June 2005. The second cycle for the financial year 2006/07 was signed on 29th June 2006, The third cycle for the financial year 2007/08 was signed on 19th June 2007. Kenya Revenue Authority is now implementing the 5th cycle of performance contracting which was signed on August 2009.

However, KRA was already operating in a result-based environment with an effective system for monitoring and evaluation in place. At the time KRA was already implementing its 2nd Corporate Plan (2003/04 -2005/06) using the Balanced Score Card (BSC) as a performance monitoring tool. Though it is clear that training, attitude, feedback, employee involvement influence implementation of performance contracting. This not an African experience it’s therefore important to investigate the determinants influencing implementation of performance contracting in Kenya revenue authority.
In order to move the implementation of performance contracting forward, Kenya Revenue Authority developed and launched the Performance contract for improvement in the Service delivery in 2002. The contract 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 KRA services are offered. Underpinning this process was the self evaluation contract approach which makes it necessary to adjust operations to respond to predetermined objectives, outputs and results (KRA 2009). The adoption of this approach therefore demanded a paradigm shift in, Kenya Revenue Authority 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 a motivated team of employees. Despite this sequential performance contract success of performance contracting is premised depends with set standards, resource allocation, training motivation and top management support.

1.2 Statement of the problem
Management of the Kenyan State Corporations was previously dogged by political interference, issues of political, tribal, ethnic and political patronage were rampant in ensuring appointments to the running of state corporations; this resulted in poor public governance, wastage and misuse of public resources and poor performance (ESAMI 2002). As a result government initiated reforms in the state corporations to bring efficiency and effectiveness. One of the reforms is the performance contracting which was initiated in the year 2002 and signed by KRA in the year 2004 (KRA, 2004).

Kenya Revenue Authority responded to the public service delivery challenges by implementing performance contracts. However the implementation has been questionable since the taxpayers have continued to complain about service delivery (KRA, 2009). Implementation helps assess all performance against jointly agreed goals and requires management style that is open, honest and encourages two-way communication between supervisors and subordinates (Lawson, 1995).
Lawson (1995) observes that implementation of performance contracting is affected by set standards and resource allocation. However, Lawson’s study is not on Kenyan context. Moreover, it ignores such factors like training, motivation and top management support which are key to successful implementation of any new policy in an organization. Given that there is no country which has same operation like the other and also the importance of the state corporations in the economic development of Kenya, a study of determinants influencing implementation of performance contracting in Kenya Revenue Authority was deemed necessary.

1.3 Objectives of the study

1.3.1 General Objective
The main objective of this study was to establish the determinants influencing implementation of performance contracting in Kenya Revenue Authority.

1.3.2 Specific objectives
The specific Objectives of the study were:

i. To determine how set standards influence implementation of performance contracting in Kenya Revenue Authority.

ii. To establish how resources allocation have influence performance contracting in Kenya Revenue Authority.

iii. To examine how training influences performance contracting in Kenya Revenue Authority.

iv. To establish how motivation of employees has influences implementation of performance contracting in Kenya Revenue Authority.

v. To analyze how top management influences implementation of performance contracting in Kenya Revenue Authority.
1.4 Research Questions

The study sought answers to the following research questions:-

i. To what extent do set standards influence implementation of performance contracting in public sector?

ii. What is the effect of training in the implementation of performance contracting in Kenya Revenue Authority?

iii. What effects does resources allocation have in the implementation of performance contracting in Kenya Revenue Authority?

iv. To what extent is motivation of employees influencing implementation of performance contracting in Kenya Revenue Authority?

v. How is the top management influencing implementation of performance contracting in Kenya Revenue Authority?

1.5 Significance of the study

It is hoped that the study was important to first, the top management in KRA to improve their performance through effective service delivery and efficiently serving their clients through the areas which was identified to be impacting on the implementation of performance contracting 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 and creating a fair and accurate impression on the performance.

Secondly, the government of Kenya and countries in similar conditions who must understand the factors influencing implementation of such policies and the role of all key stakeholders, also the government can use the findings to assist in policy formulation and
development of a framework governing the public sector. This will also help the government in an increased transparency in operations and resource utilization.

Thirdly, the study will help other state corporations improve their performance by implementing the areas which was identified to be influencing on the implementation of performance contracting. Service delivery will also be improved due to performance targets and also the reward systems introduced through implementation of performance contracting.

Fourth findings from this research will assist academicians in broadening their syllabus with respect to performance contracting. Above all, the study adds knowledge to existing research on human resource management especially on performance contracting implementation. It also identifies areas for future research for scholars who may wish to carry out further researches in this field.

1.6 Scope of the study

The scope of the study was limited to the five departments within KRA Nairobi station. Study participants were from Commissioners to the Revenue officers. The study sought to find out the relationship that existed between performance relationship between performance contracting and influences of implementation.

1.7 Limitations of the Study

There was a general lack of sufficient secondary data especially in performance contracting in Kenya. Hence much of the secondary data used in this proposal are sourced from Government legal publications and unpublished conference materials and seminar presentations in other countries.
Furthermore, the study lacked a longitudinal aspect related to the survey data. The data was collected at only one point in time, which limited the possibility of drawing causal relationships (Marjan, 2006). Finally, there was non-response by some informants due to their busy schedule.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
This chapter reviews literature on the determinants influencing implementation of performance contracting in Kenya Revenue Authority. The literature review in this study was discussed under the following sub-topics: the concept of performance contracting why performance contracting. In particular, the review will zero in on issues regarding resource allocation, trainings, motivation, top management support and set standards. In addition, to this, a diagram of conceptual framework has also been provided at the end of the Chapter.

2.2 Theoretical Review

2.2.1 The Concept of performance contract

Public sector reforms throughout the world have produced a new model of public governance incorporating a more modest role of the state as direct state corporation provider and a strong role of performance measurement (Atkinson and Brown, 2001). Performance contracting is part of the broader public sector reforms aimed at improving efficiency and effectiveness in the management of public sector. Performance contract is the agreement between management and subordinate on the responsibilities and standards for the subordinate for the budget period (Montana, 2000). According to Armstrong (2003), performance contracts also known as performance agreements, define expectations, the results to be achieved and the competencies required to attain these results. It covers such points as objectives and standards of performance implementation and indicators to assess the extent to which objectives and standards of performance have been achieved, competence assessment and core values or operational requirements for quality, customer service, team working and employee development expected of employees to successfully carry out their work (Armstrong, 2003). In the performance contract, the expectations are
put in writing (the manager's and the employee's) and the commitments for the coming period (Montana, 2000). Expectations are not therefore left to chance or assumptions based on different perspectives.

Corporate governance issues in the public sector have previously been affected by political and regulatory environment (Jensen and Meckling, 1993). Political and regulatory forces have contributed largely to control measures in modern times. Jensen elaborated mechanisms that are available to mitigate the agency problem and to align the interest of managers of the agency and the principal (government). One of the measures advocated for is performance contracting.

The problems that have inhibited the performance of government agencies are largely common and have been identified as excessive controls, multiplicity of principals, frequent political interference, poor management and outright mismanagement (Hood, 1991). Different approaches to public sector management have been employed to address these challenges. Among these measures is performance contracting. It includes using relevant expertise such as financial, legal and probity; making provisions for appropriate access to records and premises by agency (the particular organization) and the Auditor-General to allow them have sufficient access to fulfill respective accountability requirements. It is also intended to establish clear mechanisms for assessing and monitoring performance under the contract, including consideration of the use of sanctions and incentives to achieve the contracted results (Hood, 1991). Di Maggio and Powell (1983) noted that many of these practices first emerged in the private sector with the result that the public sector has moved increasingly to resemble its private sector counterparts. They called this trend as a process of engaging in isomorphic behavior.

The Kenya Government undertook to implement performance contracting in the management of government agencies in 2003. A committee was constituted to spearhead the introduction of the concept and as part of the preparation; the committee undertook study
tours to several countries implementing the concept. The countries visited were Morocco, United Kingdom, United States of America, India, Korea and China (Performance Contracts Steering Committee 2005).

2.2.2 Why performance contracting

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. Essentially, 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. 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. 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.

2.2.3 Theories related to the Concept of performance contract

According to the happiness and success theory by Czikszentmihalyi (1992), which attempted to relate success of work and happiness, people feel happy when they feel to be achieving their set goals, and especially so when it is a hard-won goal. Nash et al (2004). Implementing and Managing performance has been one of the key drivers in the reform of the public sector in recent years. It is one of the central planks of the “reinventing government” movement (Gianakis, 2002). Performance implementation and measurement are important tools for increasing accountability. Performance measurement may provide
data on how effectively and efficiently state corporations are delivered. Within the public sector, performance measurement has fostered a move towards a contract culture on various levels. Performance contracts are seen as an instrument for steering the interactions between various organizational levels and contract partners. Along with the separation of steering and rowing or, to put it otherwise, the separation of the political and the managerial level, performance contracts have emerged in many countries.

Performance Contracts have their origins in the general perception that the performance of the public sector in general and government agencies in particular has consistently fallen below the expectations of the public (Ahorani, 1986). The problems that have inhibited the performance of government agencies are largely common and have been identified as excessive controls, multiplicity of principals, frequent political interference, poor management and outright mismanagement.

According to Ahorani(1986), different approaches to public sector management have been employed to address these challenges. These approaches include: firstly, new institutional structures and arrangements for managing and delivering programs and services (privatization, commercialization, contracting out and decentralization to local government), secondly systematic reforms (market type mechanisms, new budgeting and planning systems, administrative modernization, decentralization of management authorities); and lastly, new methods of service delivery (case management and one-stop shops).

While these new methods are seen as addressing weaknesses in the more traditional centralized and compliance based public management systems, they bring their own set of problems. Most notably, management systems that are disaggregated, decentralized and devolved need a new framework to guide behavior. These changes do not rely on uniform rules for the management relationship nor for ensuring accountability in the use of public resources and delivery of state corporations. In view of the shortcomings evident in the systems, countries have adopted the system of performance contracting as a management
tool. The fundamental principle of performance contracting is the devolved management style where emphasis is management by outcome rather than management by processes. It therefore provides a framework for changing behaviors in the context of devolved management structures. Governments 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 management to the managers themselves. Performance Contracts include a range of management instruments used within the public sector to define responsibilities and expectations between parties to achieve mutually agreed results (PCSC, 2005).

The widely accepted rationale for performance contracting is that public agencies have multiple objectives and multiple principals. These unclear objectives lead to poor performance in most cases. One view is that because public agencies are required to carry several functions they are unable to do any one of them very well. The other is that while a government agency may have done very well in achieving many of its objectives, its performance may be judged with reference to one objective to which it has not done well. A performance contract is a tool of remedying the situation of multiple objectives by agreeing the preferred objectives, which the owner would like, achieved. It addresses the multiplicity of principals by requiring one agency to sign on behalf of all of them (PCSC, 2005).

Performance Contracts also prevent confusion due to multiplicity of objectives. Several government agencies may have to pursue certain social goals and such pursuit may affect the financial results of the operations of the agency. Therefore, a prior understanding of the extent to which financial results can be traded off against social objectives to be achieved by the agency through a performance contract helps to clarify the objectives of the agency (Jensen and Meckling, 1976).

Several government agencies, on the basis of current operations, could be recording losses but such results alone would not indicate the effort put in place and the success achieved by
management of the agency in improving their operations. If a performance target by an agency for the year is to reduce loss from the level of previous years, the achievement of such a target would win public support, boost the morale of the current management and spur the agency on to better performance (Uusikyla and Virtanen, 1999).

The objective of the performance contracting policy is to simultaneously increase autonomy along with transparency and accountability. Unlike conventional privatization where public assets are transferred from public ownership to private ownership, the performance contract seeks to privatize the public sector style of management through what may be regarded as a movement away from control by procedures to control by results. Government surveillance mechanisms accordingly focus on the outcome of management processes and not on the processes themselves (GOK, 2004)

GOK (2007), a performance contract is therefore a management tool that ensures the following: one, correlation between planning and implementation, two coordination between various government agencies three an enabling public policy environment for other downstream reforms lastly, a fair and accurate impression about public enterprise performance

2.3 Empirical Review

This section covers an empirical review of literature related to the study on determinants influencing performance contracting in state corporations. The extent on which motivation, top management, resources, set standards and training affect performance contracting in Kenya Revenue Authority is given.

2.3.1 Effect of Motivation in implementation of performance contracting

Many motivation theories (Herzberg et al., 1957) have attempted to reveal what is taken as "rational" in human choice of action and found out that this is what is of chief importance in a work environment. It varies with context: namely, that the decision maker is able to
compare all of the alternatives, and that these comparisons are consistent, that if uncertainty is involved, then the independence axiom is often assumed in addition to rational preferences and that the decision maker always chooses the most preferred option, as in the utility maximization. In a similar study, while looking at the primary function of performance measurement system, Amaratunga and Baldry (2002) found out that any performance measurement system serves to control organizational operations. The performance of the public sector has been a matter of public concern in both developed and developing countries. It has therefore been placed at the top of policy makers’ agenda (Ahorani, 2006). The main concern has been whether government agencies have delivered what was expected of them. This has resulted in concerted efforts to reduce the quantity of government while increasing the quality of government.

Another study by Bergmann and Scarpello (2001) looking at the role of compensation systems asserted that such systems have traditionally been designed to only attract and retain employees and to motivate them to increase their effort and output towards the achievement of organizational goals. While notable work has been carried out by Kaplan (1983 and 1990) and Johnson and Kaplan (1987) exploring the compensation system weaknesses, Neely (1993) on the other hand looked at the shortcomings of the old accounting approach with respect to the new performance measurement approaches.

McNair and Masconi (1987), Drucker (1990) and Russell (1992) attempt to reveal the need for alignment of financial and non-financial measures that fit within a strategic framework. More research in this area by Bititci and Swenson (1993), Blenkinsop and Burns (1991) and Gelders et al., (1993), attempted to reveal the evidence that, even in companies where quality-oriented performance measures are employed, they are still being used in a manner, which do not promote integration. They cited several cases where the companies’ strategy, improvement projects and performance measures were in conflict. Through a performance management system an organization can monitor both its current performance (finances, customer satisfaction and business process results) and its efforts to
improve processes, motivate and educate employees, and enhance information systems - that is its ability to learn and improve. For a successful performance contract implementation in the public sector, a better understanding of the relationship between what is being done and how well the organization succeeds must be developed at both organizational and individual levels.

Taylor’s theory of motivation was widely adopted as businesses saw the benefits of increased productivity levels and lower unit costs. The most notably advocate was Henry Ford who used them to design the first ever production line, making Ford cars. This was the start of the era of mass production. Taylor’s approach has close links with the concept of an autocratic management style (managers take all the decisions and simply give orders to those below them) and Macgregor’s Theory X approach to workers (workers are viewed as lazy and wish to avoid responsibility). Motivation being a very critical aspect in any implementation process as discussed by many scholars, none of them has discussed influences it has in implementation of performance contracting.

2.3.2 Effects of top management in implementation of performance contracting

Thinking Managers has previously noted how such policies contradict the teachings of Edwards Deming, a towering figure in 20th century theorizing on management. Deming's life was spent mainly in applying his science, statistics, to quality improvement and control. He easily spotted the flaw in the Welch Way. If the 10% are replaced by managers who is equally bad, or worse, group performance will not rise - unless the example of the sacrificed 10% terrifies the others into greater and more successful efforts (Heller, 2004).

Many managers believe that this improvement must follow. They are espousing the Byng Effect. Admiral Byng was tried for failing to engage a French fleet whose commander sedulously avoided any contact. The Briton was found guilty and executed, not as merited punishment, but 'pour encourager les autres'. Whether any of the others were encouraged is unknown - and will never be known. Byng theorists are acting on mere hunch, and evil hunch, at that.
Looking at the Welch way the other way round, if the new 10% double the output of the old ones, and the latter provided half the average output, group performance would rise by a modest 5%. Deming concluded unarguably that, rather than expelling the laggards, an intelligent manager will strive to raise the effectiveness of the entire group - by methods like Total Quality Management, which give people the tools with which to increase or improve performance, individually and collectively (Heller 2004). You most easily raise group performance therefore, by improving the system. Much of Welch's early success at GE in fact flowed from systemic reform - including the removal of a whole tier of senior supervisory management, the delegation of authority to business unit heads, the reduction of bureaucracy, and the emphasis on career development. But he retained many elements of what Douglas Macgregor nicknamed Theory X management - based on the belief that people only give their best performance under external pressure.

The Sven Way, in complete contrast, is based on Macgregor's Theory Y - founded in the faith that people like to work and to give of their best. The task of the manager is therefore to remove the unnatural obstacles to this natural urge to excel. Do not evade delicate or important issues - simply explain problems to your subordinates in a straightforward, calm and polite manner. Empower your subordinates by allowing them the space to try out new ideas and, more importantly, the license to make mistakes and to learn from those mistakes. Make decisions through a process of consensus, with equal weight given to all opinions during debate, irrespective of hierarchy or rank. Encourage people to voice original and conflicting views. Avoid a combative approach to office politics, and attempt to pre-empt problems by listening to subordinates as well as to office seniors. Give your 'star players' room to be successful, but do not elevate them above the common worker or allow them to parade their achievements. This contributes greatly to the success of implementation of performance contracting (Welch, 2004).

In a more recent research, Bititci (1995) found out that there is growing need to view performance management as a key business process, which is central to the future wellbeing and prosperity of any enterprise. The objectives of the study is to identify the extent to which top managers allowed participative management to be practiced in the state owned enterprises in Kenya and to find out whether the size of the public sector organization had an
influence on whether participative management was practiced in organizations or not (Bititci, 1995).

Gakuru (2009) on management involvement in implementation of public reforms causes positive results may not apply at all times. There are some management decisions that don’t yield positive outcome. This study will cover involvement of some top managers and will investigate whether stakeholders were involved in the implementation of performance contracting in Kenya Revenue Authority. Implementation of Performance contracting is frequently dogged by political interference, poor management and excessive reliance on the exchequer. However this been noted as the main reasons for the need for performance contracts.

2.3.3 Effects of Resource allocation in performance contracting

By requiring strategic planning and a linking of program activities/performance goals to an organization’s budget, decision-making and confidence in the organizational performance is expected to improve. Major changes are taking place in the way the businesses are managed. Resources are diminishing, regulations are being cut, and the traditional role of overseer redefined into a more positive role. This uncertainty, coupled with a continually changing environment, has forced managers to pursue new ways to meet future demands of the organizations. The answers need to be found to how to balance a world of fewer regulations with effective risk management, how this can be accomplished with fewer and fewer resources and what tools can help to meet future challenges while enabling positive cultural change (Kaplan and Norton, 1996).

However, Muturi (2008) in his research factors affecting implementation of performance contract in National Social Security fund found that the implementation has not been successfully done due to poor resource allocation. Performance contracts have not been keenly adopted and it is for this reason that most employees don’t take them with a lot of
weight. Gakuru (2009) on the other hand gives a different view on resources allocation; in her research she attributes success of any implementation plan to financial resource availability. This in the view of the researcher might not be always true because financial resources without other resources like Human resources might not yield a lot in terms of output. Amaratunga (2001) illustrates how, by focusing on the overall business objectives of an organization, a manager can manage its resources to complement the core organization’s long-term goals. It also highlighted the effectiveness of adopting a partnership approach.

2.3.4 Effects of Training in implementation performance contracting

KRA has 2 distinct performance contracts signed: the contract between the Board and Government and the management performance contracts signed between the Board and the Commissioner General and between the various levels of management. KRA has cascaded the performance contracting to its management levels. However, though the management PC covers the same areas as the Board PC, it is aligned to the Corporation’s Strategic Plan (2009/10 to 2011/12) which is built around the 4 perspectives of people, internal processes, customer and revenue. This require a deep understanding of appraisals (KRA, 2009)

The weighting structure for the management PCs are structured to ensure that each department gives adequate weight to its core business. For example, the revenue departments will place a higher weight on the revenue perspective while the human resources department will place greater weight on the people perspective.

Kobia (2006) discussed “towards an effective delivery of public services a Kenyan experience with performance contract.” In her research the she explained some constraints facing implementation of public reforms and training though not mentioned was evident in her discussion. On the other hand effective implementation of any service should come with some knowledge of what is to be implemented.
Nancy (2009) note that a weakness of any appraisal systems is that managers and supervisors are not adequately trained for implementation tasks. This leads to little feedback to employees. Training programmes are most effective when they follow a systematic process that begins with explaining the objectives of the performance appraisal process to ensure proper understanding and implementation.

2.3.5 Effects of set standards in implementation of performance contracting

Target setting is the centre piece of performance evaluation. In setting targets the organization is required to; Review annual operating plans, Identification of cost centre, and Negotiating what constitutes a ‘good’ performance. KRA (2009)

The following principles should be adhered to: first, the targets should reflect the best an organization can achieve (not soft), second, the targets should challenge management and show improvement over previous period, and third, the targets should motivate better performance but not be so high as to leave management alienated and de-motivated.

The following criteria are ensured in setting targets: Comprehensive: cover all significant performance areas of the organization, Relevant: related to your mandate, corporate plan and budgetary targets, Relevant: related to SMART: Specific, Measurable, achievable, realistic and time bound, Bench-marked: to past trends and performance of corresponding organizations (KRA, 2009)

Evaluation is based on quantitative- e.g., revenues, focus of evaluation is the contracting party- Board, Chief Executive, Commissioner, Manager, Period of evaluation is yearly, and evaluation targets management performance (Muturi, 2008).

Nguru (2009) explains that the level of a strategy depends on the degree of participation in planning and on personal acceptance of the goals, indicators and targets. Therefore effective implementation of performance contract is likely to be successful if it rests on the meetings
rather than the top down imposition. The statement is true to some extent but the nature of human is most resistance to change and a result imposition would work better. This is because it might not be practical or possible to involve every employee in target setting, secondly every employee would want to get a target that they are sure they will meet and this beats the purpose of having to implement performance contract. Employees can be involved in goal setting and not target setting but the researcher will evaluate the influences of set target to implementation of performance contracting.

Table 2.1 Ranking Selected Criteria (Set standard)

<table>
<thead>
<tr>
<th>RANKING</th>
<th>REQUIREMENT FOR BOARD</th>
<th>REQUIREMENT FOR KRA MANAGEMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding</td>
<td>N/A</td>
<td>More than 130% above agreed target</td>
</tr>
<tr>
<td>Excellent</td>
<td>Achievement 30% above agreed target</td>
<td>110% to 130% of agreed target</td>
</tr>
<tr>
<td>Very good</td>
<td>Achievement of agreed target</td>
<td>100% to 110% of agreed target</td>
</tr>
<tr>
<td>(target column)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Good</td>
<td>Performance below agreed target but 2.57% above last year’s achievement</td>
<td>10% above last year</td>
</tr>
<tr>
<td>Fair</td>
<td>Performance between 100% and 102.57% of last year’s achievement</td>
<td>Exceed last year by less than 10%</td>
</tr>
<tr>
<td>Poor</td>
<td>Performance below last year’s achievement</td>
<td>Performance below last year’s achievement</td>
</tr>
</tbody>
</table>

Source: (KRA 4th Corporate Plan, 2009)

The set of standards should be SMART; the table above represents a sample of what is expected from employees by the senior managers. At very good the employees should have
achieved at least 100%. The researcher finds this to be unrealistic theoretically but this was confirmed by the researcher during data collection.

2.4 Overview of literature review and Research gaps

This chapter has presented review of related literature on implementation of performance contracting in Kenya. The chapter started with the theoretical review and several theories were presented. In the empirical literature review, several gaps emerged which this study hopes to fill. First Nguru (2009), the research has some weaknesses in that the researcher focused on success of Government reforms. The researcher ignored the factors which can hinder its implementation. The researcher too had six variables but the conceptual framework which should be a reflection of the specific objectives has seven independent variables which is a major inconsistency. In addition, Muturi (2008) Amaratunga (2001), and Kobia (2006) ignored performance contracting in their study. This study will bridge the gap that exists in the present knowledge in this area.

2.5 Conceptual framework

Figure 2.1 presents the determinants influencing performance contracting in Kenya Revenue Authority. It represents the important variables under study. Shows the variables under study.
The variables can be explained as under:

2.5.1 Training

Training refers to the acquisition of knowledge, skills, and competencies as a result of the teaching of practical skills and knowledge that relate to specific useful competencies. It forms the core of apprenticeships and provides the backbone of tasks. Training is the process through which the Kenya Revenue Authority management takes through their members of staff through the appraisal process. It is expected that training has some influences on performance contracting.
2.5.2 Top management support

In every organization top managers have an upper hand in most of the decisions that are taken by an organization. Top management commitment is the factor that determines the tipping point between potential success and failure when developing and implementing any business continuity management projects and systems. Therefore the research will investigate how top managers influence performance contracting.

2.5.3 Resources allocation

A resource is any physical or virtual entity of limited availability that needs to be consumed to obtain a benefit from it. Anything that can be used to satisfy a human need is a resource. In most cases, commercial or even non-commercial factors require resource allocation through resource management. Performance contracting on the other hand cannot be implemented without availability of resources.

2.5.4 Motivation of employees

In today's turbulent, often chaotic, environment, commercial success depends on employees using their full talents. Yet in spite of the myriad of available theories and practices, managers often view motivation as something of a mystery. In part this is because individuals are motivated by different things and in different ways. The more you are able to provide what they want, the more you should expect what you really want, namely: productivity, quality, and service." (An Honest Day's Work (1988)) There are no real disadvantages to successfully motivating employees, but there are many barriers to overcome. Barriers may include unaware or absent managers, inadequate buildings, outdated equipment, and entrenched attitudes.

2.5.5 Set Standards

This refers a degree or level of requirement, excellence, or attainment, the set standards forms a basis for implementation of performance.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction
This chapter presents the procedures that were used in the study including the research
design, target population, data collection instruments and procedures as well as data analysis
methods.

3.2 Research Design
The study used descriptive research design. To determine the factors influencing effective
implementation of performance contracting in Kenya Revenue Authority Orodho (2004) notes that
descriptive survey research is intended to produce statistical information a bought aspects of the
population that interest policy makes without manipulating any variables the choice of the descriptive
survey research design was made based on the fact that in the study the researcher is interested on the
state of affairs already existing in the field and no variable was manipulated.

3.3 Target population
The target population for this study was 1860 members of staff participants drawn from all the
departments in Nairobi within KRA They comprise of Domestic Revenue Department, Customs
Services Department, Road transport Department, support services Department and large taxpayer
office Department (KRA, 2010). 560 members from Customs Services Department, 277 members of
staff Domestic Taxes Large Taxpayer Office, 98 members of staff Road Transport, 422 members of
staff Support Department and 490 Domestic Revenue.
Table 3.1 Target Population

<table>
<thead>
<tr>
<th>Departments</th>
<th>Population</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Custom Services Department</td>
<td>330</td>
<td>35.48</td>
</tr>
<tr>
<td>Domestic Taxes Department (Large Tax Payer)</td>
<td>110</td>
<td>11.83</td>
</tr>
<tr>
<td>Domestic Taxes Department (Domestic Revenue)</td>
<td>240</td>
<td>25.81</td>
</tr>
<tr>
<td>Support Services Department</td>
<td>210</td>
<td>22.58</td>
</tr>
<tr>
<td>Road Transport Department</td>
<td>42</td>
<td>4.52</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>932</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source (KRA, 2009)

3.4 Sampling Design

Proportionate stratified random sampling technique was used in this research. This is the purest form of probability sampling as recommended by Mugenda and Mugenda (2003). Each member of the population has an equal and known chance of being selected. When there are very large populations, it is often difficult or impossible to identify every member of the population, so the pool of available subjects becomes biased.

Ten percent of the population shall constitute the sample (93 respondents). According to Mugenda and Mugenda (2003), when the population is approximately or more than 1,000, a sample of 10% is advisable to be used. The sample was designed in such a way that will capture most of the characteristics of KRA staff and thus representative of the total population.
### Table 3.2 Sample size

<table>
<thead>
<tr>
<th>Department</th>
<th>Target population</th>
<th>Multiplier Factor 10/100</th>
<th>Sample size</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Custom Services Department</td>
<td>330</td>
<td>0.1</td>
<td>33</td>
<td>35.48</td>
</tr>
<tr>
<td>Domestic Taxes Department (Large Tax Payer)</td>
<td>110</td>
<td>0.1</td>
<td>11</td>
<td>11.83</td>
</tr>
<tr>
<td>Domestic Taxes Department (Domestic Revenue)</td>
<td>240</td>
<td>0.1</td>
<td>24</td>
<td>25.81</td>
</tr>
<tr>
<td>Support Services Department</td>
<td>210</td>
<td>0.1</td>
<td>21</td>
<td>22.58</td>
</tr>
<tr>
<td>Road Transport Department</td>
<td>42</td>
<td>0.1</td>
<td>4</td>
<td>4.52</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>932</strong></td>
<td></td>
<td><strong>93</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source (Author, 2010)

### 3.5 Data Collection Instruments & Procedures

The study used both primary and secondary data and utilized questionnaire schedule for data collection. Primary data was collected using a questionnaire. The questionnaires were administered using the drop and pick method. The secondary data was collected from the publications such as journals, books as well as authoritative internet sources dealing with this subject of study.
3.5.1 Questionnaire

Each question item was developed to address the specific objective of the study. The questionnaire will have a mix of open and closed ended questions to reduce the weaknesses associated with each type. The questionnaires was administered using the drop and pick method.

3.5.2 Validity

All assessments of validity are subjective opinions based on the judgment of the researcher (Wireman 1985) the piloted questionnaires was assessed for clarity and those items found to be inadequate or vague were modified to improve the quality of research instruments thus increasing its face validity. According to Borg and gall (1989), content validity of an instrument is improved though expert judgment as such the researchers seeks assistance from supervisors in order to help improve content validity of the instruments.

3.5.3 Reliability

Prior to data collection pilot study was conducted in three departments Customs and Road Transport departments. The choice of the two was because the two departments have some similarities since one is the largest and the other is the smallest within the establishment of KRA. This course diversity in resources and to prevent contamination of the sample population (Gay 1992). The pilot study helped to improve reliability of the instruments the split half technique of measuring reliability that was used this involved splitting the pilot questionnaires into two halves (odd and even) then calculating the correct coefficient (r) for two halves. to do this, the spearman's rank order correlation coefficient was used. The reason behind pre testing was to assess the clarity of the questionnaire items so that those items found to be inadequate or vague be modified to improve the quality of the research instruments hence increasing its reliability (Kathuri and pals, 1993). A correlation coefficient of at least 0.7 was established and accepted as sufficient as recommended by Gay (1992)
3.5.4 Data collection procedure
The researcher obtained an introduction letter from the university after which the researcher booked an appointment with the Senior Deputy Commissioners to visit and administer the questionnaire. The respondents were given instructions and assured of confidentiality after which they were given a day to fill in the questioners after which the researcher collected the filled in questioners.

3.6 Data Analysis Methods
The whole process commenced immediately after data collection and ended at the interpretation and processing data analysis (Cooper & Schindler, 2003). Before processing the responses, the completed questionnaires were edited for completeness and consistency.

Descriptive statistics was used to analyze the quantitative data and was reported using graphs. And percentages Borg and Gall (1999) states that use of percentages are widely understood standard proportion. Descriptive statistics was used so as to simplify large amount of data inferential statistics, specific factors analysis was used to detect contribution of each determinant on the dependent variable on implementation of performance contracting. All these analysis was done in SPSS software version 12. In addition, qualitative technique specifically content analysis was used to analyze the open ended questions. The results of data analysis was presented inform of tables and graphs for easy understanding and interpretation.
CHAPTER FOUR:
RESEARCH FINDINGS

4.1 Introduction

This chapter presents data analysis and discussion of the study findings on the determinants influencing implementation of performance contracting in Kenya Revenue Authority.

4.2 Analysis of response rate and demographic information

4.2.1 Response rate

A target population of ninety three top and middle management staff of KRA were targeted. Sixty three of them responded to the questionnaires, representing 70% response rate as follows;

Table 4.1: Total Respondents

<table>
<thead>
<tr>
<th>Department</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customs Services Department</td>
<td>24</td>
<td>38.1</td>
</tr>
<tr>
<td>Domestic Revenue</td>
<td>1</td>
<td>1.6</td>
</tr>
<tr>
<td>Large Taxpayers Office</td>
<td>6</td>
<td>9.5</td>
</tr>
<tr>
<td>Road Transport Department</td>
<td>1</td>
<td>1.6</td>
</tr>
<tr>
<td>Support Services</td>
<td>31</td>
<td>49.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>63</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source (Survey Data, 2010)

According to Table 4.1 above, majority (49.2%) of the respondents surveyed were in the Support Services Department, 38.1% were in the Customs Services Department while 9.5% were in the Large Taxpayers Office and a small proportion (1.6%) was in either Domestic Revenue Department or Road Transport Department.
4.2.2 Demographic Information

Table 4.2 below presents the demographic information of the respondents. From Table 4.2, it is clear that majority (61.9%) of the respondents interviewed was between 25 and 35 years of age, 27.0% were between 36 and 45 years while the rest (11.1%) were between 46 and 55 years. Further, Table 4.2 indicates that 60.3% of the interviewed respondents were degree holders, 20.6% had postgraduate qualifications while 11.1% had diplomas and the rest (7.9%) had college certificates. This is a clear indication that majority (80.9%) of the respondents interviewed had at least an undergraduate degree. Finally the results on Table 4.2 reveals that majority (76.2%) of the surveyed respondents had worked at KRA for a period of between 5 and 10 years, 7.9% had served at KRA for less than 5 years and the rest (15.9%) had served for more than 10 years.

Table 4.2: Demographic Characteristics

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Age</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25 – 35 Years</td>
<td>39</td>
<td>61.9</td>
</tr>
<tr>
<td>36 – 45 Years</td>
<td>17</td>
<td>27.0</td>
</tr>
<tr>
<td>46 – 55 Years</td>
<td>7</td>
<td>11.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>63</td>
<td>100</td>
</tr>
<tr>
<td><strong>Education Level</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>College Certificate</td>
<td>5</td>
<td>7.9</td>
</tr>
<tr>
<td>Diploma</td>
<td>7</td>
<td>11.1</td>
</tr>
<tr>
<td>Degree</td>
<td>38</td>
<td>60.3</td>
</tr>
<tr>
<td>Post Graduate</td>
<td>13</td>
<td>20.6</td>
</tr>
<tr>
<td>---------------</td>
<td>-----</td>
<td>------</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>63</td>
<td>100</td>
</tr>
<tr>
<td><strong>Years of Service at KRA</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 5 Years</td>
<td>5</td>
<td>7.9</td>
</tr>
<tr>
<td>5 – 10 Years</td>
<td>48</td>
<td>76.2</td>
</tr>
<tr>
<td>11 – 15 Years</td>
<td>4</td>
<td>6.3</td>
</tr>
<tr>
<td>16 – 20 Years</td>
<td>3</td>
<td>4.8</td>
</tr>
<tr>
<td>More than 20 Years</td>
<td>3</td>
<td>4.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>63</td>
<td>100</td>
</tr>
</tbody>
</table>

Source (Survey Data, 2010)

4.3: Set Standards

The first objective was to look at how set standards influence implementation of performance contracting in KRA. The objective here was to measure whether the introduction of performance contracting had any influence in performance of the entire authority.

![Figure 4.1: Involvement in Performance Contracting](Image)

Source (Survey Data, 2010)
The results in Figure 4.1 above indicates that majority (74.6%) of the respondents surveyed had been involved in the performance contracting while the rest (25.4%) had not.

![Bar Chart](image)

**Figure 4.2: Extent of Involvement in Setting of Primary Objectives**

Source (Survey Data, 2010)

Figure 4.2 above indicates that among the respondents who had been involved in performance contracting, majority (32.2%) had minimal involvement in setting of the primary objective, 23.7% had either very minimal involvement or moderate involvement while 11.9% had been involved to a large extent and only 8.5% had been involved to a very large extent. This is an indication that majority of the respondents had not been involved in setting the primary objectives in performance contracting.
Figure 4.3: Extent of Involvement in Defining Strategies

Source (Survey Data, 2010)

Figure 4.3 above indicates that among the respondents who had been involved in performance contracting, majority (29.8%) had either minimal involvement or very minimal involvement in defining strategies, 19.3% had been involved to a large extent while 17.5% had been involved moderately and only 3.5% had been involved to a very large extent. This is an indication that majority of the respondents had not been involved in defining the strategies in performance contracting.
The results in Figure 4.4 above reveals that majority (28.6%) of the respondents who had been involved in determining performance contracting were involved in the determining of the performance targets; 27.0% were involved moderately while 14.3% were involved either minimally or to a large extent and only 6.3% had been involved to a very large extent. This indicates that majority of the respondents whore were involved in performance contracting were involved minimamaly in determining the performance targets.
The results in Table 4.5 indicates that majority (64.9%) of the respondents who had been involved in performance contracting were very minimally involved in determining rewards for improved performance, 19.3% had been involved moderately while 10.3% were minimally involved while only 5.3% were involved to a large extent. This is an indication that majority of the respondents were not involved in determining rewards for improved performance.
Figure 4.6: Extent the Following Factors Influenced Performance Target Setting

Source (Survey Data, 2010)

Figure 4.6 above reveals the extent to which the following factors influenced performance target setting: setting of primary objectives, defining strategies, determining performance targets and determining rewards for improved performance. From Figure 4.6 it is clear that setting of primary objectives and defining strategies influenced performance setting to a large extent of 69.3% and 76.1% respectively while determining the performance targets and
determining rewards for improved performance influenced performance setting to a minimal extent of 54.5% and 55.9%.

4.4: Resources Allocation

The second objective was to establish how resources allocation influenced performance contracting in Kenya Revenue Authority. The researcher wanted to find out how different aspects of resource allocation they would consider critical in target achievement. The researcher identified four aspects namely: timely resources allocation, right amount of resources, and right time & right type of resources. Moreover, the researcher gave the respondents a likert scale of one to four which they were to use to rank how critical the aspects were where one was considered more critical and four was considered to be less critical and thus the average was 2.5. The following are the results presented in the Figure 7 below:

Figure 4.7: Aspects of Resource Allocation

Source (Survey Data, 2010)
The results in Figure 4.7 above indicate that the three aspects of resource allocation namely right time & right type of resources, right amount of resources and timely resource allocation were considered more critical in target achievement. An aspect was considered to more critical in target achievement if it had a scale of less than 2.5. According to Figure 4.7 all the aspects that were considered namely right time and right type of resources, right amount of resources and timely resource allocation had 1.34, 1.72 and 1.58 respectively which were less than 2.5 hence they were considered more critical in target achievement.

4.5: Training

The third objective was to examine how training influences performance contracting in Kenya Revenue Authority. 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. Performance measures are instrument in design of performance monitoring and evaluation system. Good measures are fundamentals to development of a responsive and reliable evaluation system. Without proper training the people involved in the implementation of the performance contracts may fail to achieve the evaluation criteria. Respondents were asked to state when they last attended training in performance contracting
Figure 4.8: Training

Source (Survey Data, 2010)

Figure 4.8 above reveals that 96.1% of the surveyed respondents had not attended any training for the less than two months preceding the interview, while only 3.9% had attended. Further, 92.0% had not attended any training between two and six months preceding the interview while only 8.0% had attended. Moreover, 88.5% of the respondents had not attended any training between seven months and twelve months preceding the interview and the rest (11.5%) had attended. Finally, 74% of the respondents had not attended any training between one year to two years preceding the interview and the rest (26%) had attended.
4.6: Motivation

The fourth objective was to establish how motivation of employees influences implementation of performance contracting in Kenya Revenue Authority. The respondents were asked about employees' motivation and implementation of performance contracting. The results are presented below:

Figure 4.9: Motivated Employees are High Performers

Source (Survey Data, 2010)

Figure 4.9 indicates that majority (45%) of the respondents interviewed strongly disagreed that motivated employees are high performers, 30% strongly agreed that motivated employees are high performers while the rest 25% agreed that motivated employees are high
performers. Thus according to the results above majority (55%) of the surveyed respondents agreed that motivated employees are high performers.

Figure 4.10: Performance contracting as a Motivation to Respondent’s Work

Source (Survey Data, 2010)

The results in Figure 4.10 reveals that majority (62%) of the respondents interviewed said that introduction to performance contracting is a motivation to their work while the rest (38%) said it doesn’t motivate in their work.
CHAPTER FIVE:  
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings, conclusions and the recommendations arrived at. The chapter also presents suggestions for related studies that could be carried out in the future

5.2 Summary of Findings

This study aimed at achieving five objectives. The main objective of this study was to establish the determinants influencing implementation of performance contracting in Kenya Revenue Authority other objectives were; to determine how set standards influence implementation of performance contracting in Kenya Revenue Authority secondly to establish how resources allocation influence performance contracting in Kenya Revenue Authority. Thirdly, to examine how training influences performance contracting in Kenya Revenue Authority. How top management influences implementation of performance contracting in Kenya Revenue Authority and lastly to establish how motivation of employees has influences implementation of performance contracting in Kenya Revenue Authority

The survey revealed that 74.6% of the respondents interviewed had been involved in performance contracting, further, among the respondents who were involved in performance contracting; majority (32.2%) had minimal involvement in setting of the primary objectives. This clearly indicates that despite the fact that majority of the respondents had been involved in performance contracting very few were involved in setting the primary objectives. Moreover, among the respondents who had been involved in performance contracting; only 3.5% had been involved largely in defining strategies, this is However, majority (28.6%) of the respondents who had been involved in determining performance contracting were involved in the determining of the performance targets. The
survey also revealed that several factors had influenced performance target setting, these included: setting of primary objectives, defining strategies, determining performance targets and determining rewards for improved performance. Setting of primary objectives and defining strategies influenced performance setting to a large extent of 63.9% and 76.1% respectively while determining the performance targets and determining rewards for improved performance influenced performance setting to a minimal extent of 54.5% and 55.9% respectively.

The study found that the following aspects; right time and right type of resources, right amount of resources and timely resource allocation were more critical in target achievement. According to the results; the three aspects had scores of 1.34, 1.72 and 1.58 respectively. An aspect was considered to be more critical if it had a score of less than 2.5 scores and hence the three were considered to be more critical in target achievement.

The study found out that most respondents were not adequately trained to deal with the matters of performance contracting. Ninety six percent of the surveyed respondents had not attended any training for the less than two months preceding the interview, 92.0% had not attended any training between two and six months preceding the interview while 88.5% had not attended any training between seven and twelve months preceding the interview and lastly 74.0% of the respondents interviewed had not attended any training between one year to two years preceding the interview.

The results of the survey revealed that 45.0% of the respondents interviewed strongly disagreed that motivated employees are high performers, 30.0% agreed that motivated employees are high performers while 25.0% agreed that motivated employees are high performers. This clearly indicates that majority of the respondents surveyed agreed that motivated employees are high performers. Further, 62.0% of the respondents interviewed said that introduction to performance contracting was a motivation to their work.
5.3 Conclusions
This study has identified key aspects of performance contracting which have enhanced performance in KRA and has also identified key challenges which affect performance contracting. It is by properly addressing these aspects that institutions will maximize their performance, utilization of resources and growth in their revenue base. The strong aspects identified by this study which have enhanced performance are: Firstly, proper setting of objectives and strategies on the way parastatals want to do their business. This definition of objectives and strategies and how to achieve these objectives helps in defining the direction the organization will follow in implementing its duties and roles. There should however be proper training of staff and enhance motivation.

Secondly, the study can infer from the improved financial performance that performance contracting as a management tool has encouraged proper utilization of resources. Lastly, involvement in the setting of targets has encouraged participation in the decision making process of the organizations. This has reduced the error of making wrong decisions in the execution of the organizations’ objectives and mandate.

5.4 Recommendations
Based on the finding, the following recommendations were made: Training of the staff by Kenya Revenue Authority management should be improved since the study revealed that most respondents were not adequately trained to deal with matters of performance contracting. This will enhance the employees’ skills on performance contracting. Kenya Revenue Authority management should improve motivation of employees because the study found that motivating employees increases their performance. The management and leadership of the KRA should ensure that their employees are highly motivated in their day to day obligations. Kenya Revenue Authority top managers play a great role in the implementation of performance contracting, most managers were involved in the setting of goals but the middle managers were not involved.
The employees should be involved not only in performance contracting but also in setting primary objectives, defining strategies, and determining of the performance targets, this should be embraced by the management of Kenya Revenue Authority to ensure employees own the process.

5.5 Suggestions for further research

For the parastatal to remain focused and enhance growth this research recommends a comparative study to investigate the extent to which State Corporations and the Ministries are in implementing the PC in Kenya. Comparing the differences in the successes or failure in State corporation and Ministries would be an interesting area to explore to gain insights into factors that enhance or inhibit the implementation of PC in Kenya.
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APPENDIX I: RESEARCH QUESTIONNAIRE

Maureen Nthiga
P.O.Box 5131
Nairobi

RE: INTRODUCTION LETTER

My name is Maureen Nthiga a student at Kenyatta University. As part of the requirement for the award of the Degree of Master of Business Administration, I am required to carry out research on a topical area relevant to my course. My topic of research is: Determinants influencing implementation of performance contracting in Kenya Revenue Authority.

This is therefore to request you to assist me in fulfilling this noble objective by filling in the following questionnaire.
Please fill it as honestly as possible. The information provided will be confidential and purely for statistical analysis.

Maureen Nthiga
D53/PT/10622/08
MBA Student
Kenyatta University
Tel: 0751124919
QUESTIONNAIRE

SECTION A: GENERAL INFORMATION

Questionnaire Number.......................... Date..........................

INSTRUCTIONS: Please tick the appropriate box that suits your answer most

Please provide the following information, (Personal Information)

1. Age Bracket (Years)

   Below 25  25-35  36-45  46-55  Over 55

2. Education Level

   Secondary College Diploma Degree Post graduate
   Certificate

3. Years in KRA

   >5yrs  5-10yrs 11-15 yrs 16-20 yrs > 20 yrs

4. Department

   CSD  DR  LTO  RTD  Support Services
   Department (I&ED, HR, Finance, ICT, CGs Office)

55
Key:
CSD...... Customs Services Department
I & ED....Investigation & Enforcement Department
DR........ Domestic Revenue
HR........ Human Resource
LTO.......Large Taxpayers Office
RTD.......Road Transport Department
ICT.......Information communication Technology
CG........Commissioner General

5. Grades

<table>
<thead>
<tr>
<th>KRA 1 – 2</th>
<th>KRA 7 – 8</th>
<th>KRA 13 – 14</th>
</tr>
</thead>
<tbody>
<tr>
<td>KRA 3 – 4</td>
<td>KRA 9 – 10</td>
<td>KRA 15 – 16</td>
</tr>
<tr>
<td>KRA 5 – 6</td>
<td>KRA 11- 12</td>
<td>Other (specify)</td>
</tr>
</tbody>
</table>

Part B: Performance Contracting and Measurement Practices

6. Are you involved in performance contracting?

Yes [ ] No [ ]

7. To what extent were you involved in performance contracts negotiation?

<table>
<thead>
<tr>
<th>Factor</th>
<th>Very minimal involvement</th>
<th>Minimal involvement</th>
<th>Moderate involvement</th>
<th>Large extent</th>
<th>Very large extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Setting of primary objectives</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Defining strategies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
8. Were the performance targets freely negotiated and agreed upon?
   a) Yes [ ] b) No [ ]

9. To what extent have the following factors influenced performance target setting?

<table>
<thead>
<tr>
<th>Factor</th>
<th>Very minimally</th>
<th>Minimally</th>
<th>Moderately</th>
<th>Much</th>
<th>Very much</th>
</tr>
</thead>
<tbody>
<tr>
<td>Setting of primary objectives</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Defining strategies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Determining the performance targets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Determining rewards for improved performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

10. KRA vision is to be the leading revenue authority in the world respected for 
    **professionalism, integrity** and **fairness**. In your own opinion what is the role of 
    performance contracting in improving adherence to these attributes?

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Level of adherence</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>To a very great extent</td>
</tr>
<tr>
<td>Professionalism</td>
<td></td>
</tr>
<tr>
<td>Integrity</td>
<td></td>
</tr>
<tr>
<td>Fairness</td>
<td></td>
</tr>
</tbody>
</table>

11. Training and implementation Performance contracts

a) KRA conducts training in a number of areas. Please indicate whether you have been 
    trained in performance contracting courses as indicated below:
i) In the last two months

ii) Between 2 months to 6 months

iii) Between 7 months to 12 months

iv) Between 1 year to 2 years

v) Never attended

b) What do you think management needs to do to improve performance through training?

12. Resource Allocation and implementation of Performance contracts

Resources are important in implementation of any projects and achievement of performance targets.

a) Please name a few important resource needed in 12 above.

b) What aspects of resource allocation would you consider critical in target achievement. *(Please rank in a scale of 1-4 1 being more critical)*

   i) Timely resource allocation

   ii) Right amount of resources

   iii) Right time & right type of resources

   iv) Other *(specify)*
c) Why do you think resources need to be aligned with the targets?

..........................................................................................................................................................
..........................................................................................................................................................

d) Please suggest ways of improving resource allocation
..........................................................................................................................................................
..........................................................................................................................................................

13. Employee Motivation and implementation of Performance Contracting

a) “Motivated employees are high performers”. To what extent do you agree with the statement?

i) Strongly disagree

ii) Disagree

iii) Neutral

iv) Agree

v) Strongly agree

b) In your opinion do you think the introduction of performance contracting is a motivation to your work?

Yes ☐ No ☐

d) Suggest ways of improving employees motivation
..........................................................................................................................................................
..........................................................................................................................................................

14. Top Management and implementation of Performance Contracting
a) Do you think top management has a role in implementation of Performance Contracts?

Yes [ ] No [ ]

b) If yes, what roles do they play?

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----------------------------------------------------------------------------------------

c) If answer in (a) above is No. Please explain

----------------------------------------------------------------------------------------

----------------------------------------------------------------------------------------

d) What do employees expect of top management so as to improve performance of their work, please suggest ways of improving the role of top management in implementation of Performance Contracts?

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Thank you for your time