

**THE EFFECT OF PERFORMANCE CONTRACTING ON SERVICE  
DELIVERY OF KENYA PARASTATALS: A CASE OF THE  
COFFEE BOARD OF KENYA**

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the award of the Degree of Masters of Business Administration; Human  
Resource Management, Kenyatta University**

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*The effect of  
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## DECLARATION

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

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## DECLARATION BY SUPERVISORS

This research project has been submitted for examination with our approval as University Supervisors.

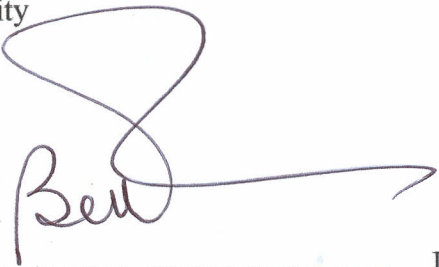

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## DEDICATION

I do dedicate this research project to my family, friends, colleagues, my supervisors and lecturers for their support, guidance, encouragement and faith in me.

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I wish to thank the management of Kenyatta University for extending their services to Nyeri town through the Open Learning program thus enabling me to undertake this Degree of Masters of Business Administration (Human Resource Management Option)

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Last but not least, I take this opportunity to sincerely thank my dear Mother Milka Wanjuki for being a perfect mother to me and above all my Almighty God.

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## ABSTRACT

Within the Kenyan public service, for a long time the government operations were mainly on provision of services with much emphasis being put into delivering the same according to the laid down rules and regulations. Performance management and measurements were not being emphasized upon, albeit a well-known fact that one cannot manage what has not been measured, and that which is measured gets done. Emphasis was not made on set targets or standards, and outputs or tangible outcomes were not the main concern. However by 1991, the Government of Kenya realized that much was not being achieved and it was necessary to introduce measures that would lead to performance, production and cost containment, thus ushering in the introduction of the public service reform programs(PSRP), reform of statutory organizations, management of the current budget, other public sector reforms and general reform areas. In the backdrop of all these dynamics, the Coffee Board of Kenya, a state corporation in charge of the coffee sector is not an exception. The purpose of this study was to investigate the effect of performance contracting on the service delivery of Parastatals in Kenya in a case of coffee board of Kenya. This study adopted a descriptive survey research design. The target population was the value chain players in the coffee sector from the farm to the market with the grower representation drawn from the central region where about 70% of Kenya coffee is grown. Although a sample size of 10% of the target population is sufficiently representative, the researcher worked with a sample size of 20% of the target population, thus arriving at a sample size of 77 respondents. Data from this study were collected by means of questionnaires with both open and closed ended questions. These were administered through drop and later pick method. Data collected was analyzed by use of descriptive statistics such as the Mean, Frequencies and Percentages. Data collected was presented by means of charts, graphs and tables. Among the key findings of the study was the great improvement that has taken place on the delivery of services by the Board to its customers who are the various value chain players in the industry. On the inspections carried out, it was established that indeed the Board has increased the number of inspections for compliance and the players are happy with that. There has also been an improvement on the awareness creation programs that the Board has been planning as forums for enlightening the industry stakeholders about new developments in the industry and especially their rights and obligations. An increase in new license applications has been observed and improved compliance with license renewals with more business friendly guidelines and polices being formulated leading to a shorter licensing lead-time. There has been greater innovation in the industry and a general improvement in service delivery by the Board. The study recommended that the company improve on its law enforcement role for greater compliance. It was also recommended that inter and intra-industry communication be enhanced so that each player understands the role of the other and how other parallel industries work. The Board should also work to improve innovation(s) especially in line with Vision 2030. Research should be carried out on production and marketing to enable the organization re-engineer itself to cope with emerging challenges. Further research should be carried on other similar organizations in the agricultural sector for comparison and benchmarking as well as establishing the effectiveness of the performance contracting approach on service delivery and customer satisfaction.

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.0 Introduction**

This chapter provides a summary of the background of the study, objectives of the study, statement of the problem, research questions, significance and scope of the study.

#### **1.1 Background of the study**

Since late 1980s, rapid global changes were observed to sweep across the entire world, affecting almost all the sectors of the world economies. These changes particularly affected the economic sectors of the world in a great way which radically altered the business environment, by introducing rapid dynamics characterized by very stiff competition in the business arena. Subsequently, as the world continued becoming more and more competitive, governments and the private sector realized the need for improved service delivery as the only avenue for overcoming the challenges of the competitive economic environment (Trivedi, 2003).

Since then, this dynamism has remained firm to this day and any organization, that aims at maintaining a competitive position in today's world, must of necessity employ a variety of measures of performance focusing on both financial and non-financial indicators, (Amaratrunga et al., 2001), as opposed to the traditional performance management systems whose focus was limited to only financial indicators.

The increasing focus on systems like total quality measures and balanced scorecards by managers, consultants, and academicians in recent years reflects the increasing need resulting from a vigorous competition which is putting pressure on organizations to improve their performance for survival (Hussain and Hoque, 2002).

Indeed, various studies conducted have proposed performance contracting as one way by which organizations can ensure quality and satisfactory service delivery to their clients and stakeholders in line with their mandate and obligations. This takes place in the backdrop of a consensus that organizations all over the world, which have adopted performance contracting, experience improved organizational performance. Performance

contracting as a tool of performance management consists of 'understanding and setting goals and expectations; providing continuous feedback; and appraising performance (Ohemeng, 2009). Alternately, the practice refers to the processes geared to coordinating and enhancing of work activities and outcomes within an institutional unit (Waldman, 1994).

In the Kenyan case, the public sector is primarily a service delivery vehicle to the private sector in order to facilitate the creation of wealth. For a long time the government operations were mainly focused on the provision of services with much emphasis being put into delivering the same according to the laid down rules and regulations. Performance management and measurements were not being emphasized upon, albeit a well-known fact that one cannot manage what has not been measured, and that which is measured gets done. Emphasis was not made on set targets or standards, and outputs or tangible outcomes were not the main concern (DPM, 1999). However by 1991, the government of Kenya realized that much was not being achieved and it was necessary to introduce measures that would lead to improved performance, production and cost containment, thus ushering in the introduction of the public service reform programs, reform of statutory organizations, management of the current budget, other public sector reforms and general reform areas (Kobia and Mohammed, 2006).

It is through performance management that satisfactory service delivery is achieved. Performance management is the record of outcomes on specific job functions or activities during a specified time period. According to Noelle (2000), performance management is the examination of the processes in place to ensure that employees know their roles, contributing to developing rules and goals and obtain firm and effective feedback on their performance. According to Armstrong (2001), performance measures are agreed on when setting the objectives. It is therefore apparent that Organizations will increasingly use their performance management system to communicate organizational objectives. By establishing and incorporating core organizational competencies and competencies for individual jobs into their performance management system, organizations will translate

their overall strategies into individual expectations, behaviors, and activities and thus improve the overall output; service delivery (Nambi, 2010).

Performance contracting process as a performance management instrument is a critical tool for survival for any organization all the world over. This is because of the emergence of a cut throat competition with an ever demanding clientele and constantly changing global market-place parameters. Based on the trends observed in the recent past, performance contracting should continue to grow, playing an even stronger, more diversified role in organizational and individual success. It is a necessary tool for any organization whether private or public, that intends to leverage itself for the cutting edge performance in today's competitive market environment, and the Kenyan parastatals are not an exception.

### **1.1.1 The Kenyan parastatals**

As part of the Kenyan government's "Economic Recovery Strategy for Wealth and Employment Creation 2003-2007", The use of performance contracting system was embraced as an effective and promising means of improving the performance of public enterprises as well as government departments. Performance Contract (PC) is an agreement between the government and a public agency (Parastatal) which establishes general goals for the agency, sets targets for measuring performance and provides incentives for achieving these targets. Today, all government parastatals are under performance contracting as a performance management measure, which has come to be considered an essential tool for enhancing good governance and accountability for results in the public sector. Moreover, it is used as a tool to communicate to the employees the direction of the organization and what is required of them as well as providing the necessary transparency and accountability to the government, the customers and other stakeholders, (Frank, 2007).

Once the government agency identifies and agrees upon certain targets with the government that are to be achieved within a certain period, normally one year, the same targets are then cascaded to the lowest cadre of staff in that organization. In so doing, the

entire organization is focused on a common goal which helps to harness the resources of the organization and direct them to the achievement of the identified goals.

### **1.1.2 The coffee industry in Kenya**

According to the Coffee Board of Kenya (2010), the coffee industry in Kenya dates back to 1893 when the first coffee plants were planted by the white settlers at Bura in Taita Hills and thereafter in Kibwezi, under irrigation in 1900 and at Kikuyu near Nairobi in 1904. There was no statutory control in terms of crop husbandry, processing or grading. The marketing was handled by individuals through rudimentary institutions between 1900 and 1933.

Coffee is important in the Kenyan economy due to its contribution to foreign exchange earnings, farm incomes and food security. It is grown by the smallholder coffee farmers who belong to cooperative societies, registered small/medium coffee estate planters with less than twenty five (25) hectares and large coffee estates with more than 25 hectares. There are between 500,000 and 700,000 members of cooperative societies, about 2000 coffee farmers in the small/medium estates category and about 200 planters with more than 25 hectares (Coffee Board of Kenya, 2010). According to the Kenya National Bureau of Statistics (2009), coffee was the leading export crop since independence to 1988. Between 1975 and 1986, it contributed over 40% of the total export value. Between 1987/88 and 1997/98, coffee earned Ksh 107 billion which was about 10% of agriculture's share of GDP.

In the last one decade, the industry has experienced various challenges from both within and without. These have contributed to a general level of underperformance that led to reduced production and quality. From an all time high of 130,000 MT of coffee in 1987/88, today the national production oscillates between 45,000 and 52,000 MT, with a gross income of between Ksh 15 and 20 billion. According to Coffee Board of Kenya (2010), about 70% of the coffee is grown in areas of Kiambu, Thika, Murang'a, Nyeri and Kirinyaga. The rest comes from the Western region, Eastern, Nyanza, North Rift and the South Rift. Overall, it is grown by the small scale farmers who produce about 60% of

the national production through their cooperative societies while the estate farmers contribute 40%. The government is determined to restore the coffee industry to its former glory (Ministry of Agriculture, 2009), by among other things reorganizing and reforming the institutional framework for a more efficient service delivery.

Kenya coffee is one of the finest Arabica coffees in the world categorized alongside that of Tanzania, Columbia and Ethiopia. It is highly sought after by roasters all the world over for blending with coffees from other origins thus creating a demand that has been difficult to meet. With the current global coffee prices expected to remain firm for some time to come, coffee growers can expect to make more money as the demand continues to outstrip the supply as the production areas shrink and consumption continues growing even in the producing countries (ICO, 2009)

### **1.1.3 The Coffee Board of Kenya**

In 1932, on the agitation of coffee farmers, the colonial government enacted the coffee industry ordinance and established the Coffee Board (CB). The primary purpose for which this organization was created was to offer the industry the service of regulation and promotion. Since then, the coffee statute was amended several times as the situation demanded with the aim of re-engineering the industry for survival in a rapidly changing business environment. The last major amendment took place in 2001 when the Coffee Act Cap 333, laws of Kenya was repealed and replaced with the Coffee Act No. 9 of 2001 in line with the direction of the wind of globalization and economic liberation that was sweeping across the world at that time. Aseto and Akello (1998) state that the Kenya government joined the globalization race by introducing liberalization and privatization policies as a way of promoting efficiency in service delivery within the public service.

The Sessional Paper No. 2 (2001) underscored the need for radical policy and legal reforms in the coffee industry. This was in appreciation of the fact that, globally the business environment had significantly changed and thus needed a reformed institutional framework that would be capable of serving the industry in line with the unfolding challenges. The purpose for this policy and legal reform was to de-link the functions of

regulation from those of marketing hitherto under the Coffee Board of Kenya as there seemed to be a serious conflict of interest. The Board was therefore stripped of the coffee marketing functions to leave it to concentrate on the regulatory functions which are in line with the overall purpose for which the government through its agencies is created to offer, the provision of an enabling business environment.

According to MoA (2000), the Coffee Board of Kenya had failed to satisfactorily render the services for which it was created. In a countrywide consultation with the coffee stakeholders, it came out clearly that the industry stakeholders were not getting the level of services they expected from the board. The culmination of the consultations was the introduction of various institutional changes being instituted then, that resulted in the Coffee Board of Kenya as currently constituted.

Today, the Coffee board of Kenya is a state corporation under the Ministry of Agriculture, established through an Act of parliament, the Coffee Act No. 9 of 2001. The object and purpose for which it is currently established is to promote competitiveness in the coffee industry, production, processing and branding of Kenya coffee locally and internationally, and generally to regulate the coffee industry in the public interest (Coffee Act No. 9, 2002). It is managed by a Board of Directors, appointed by the Minister for the time being responsible for agriculture on the basis of their expertise and interest in coffee matters. In addition, the representatives of the Permanent Secretary in the Ministries of Agriculture, Finance and Cooperatives and Marketing are ex-officio members of the Board. However, the day-to-day running of the Board is charged on the Managing Director and a staff portfolio of 48 members of staff who are employees of the Board (Coffee Act No. 9, 2001). The Board has three functional units or departments namely the technical and regulatory services, quality assurance and market research and finally the Finance and administration. Under these are various sections and units which include the legal section, internal audit, and procurement section.

In order to deliver on her mandate, the Board focuses on three broad operational areas of service delivery which include; carrying out inspections on the industry players for the

purpose of ensuring compliance with the established industry operational standards. This is indicated by the number of trade related premises inspected, Pulping stations inspected, Number of nurseries inspected and the number of growers' farms visited. The interaction with the concerned players and the feedback on compliance is what the board is judged on by those industry players on its ability to effectively assure quality. The other area of focus is grower/ Stakeholder awareness which is indicated by the growers/stakeholder meetings held and the attendance during those meetings, number of field days held and the number of growers in attendance. The quality of the messages during those forums and the relevance to the stakeholders at that time is the yardstick by which they appraise the board on its service delivery and therefore its relevance to them.

Finally, to undertake the registration and licensing of new players and sustaining of existing licensees which is indicated by the number of applications received and the number of licenses actually approved by the Board. Receipt of new applications shows attractiveness of the industry to new players, while renewal of the existing licenses indicates the desire to remain in, thus sustained attractiveness. The board has an obligation to be transparent, fair and efficient in this process in order to facilitate business while shielding the industry from bad elements. When this process is carried out in a manner that is satisfactory to all interested parties, it is an indicator of good service delivery by the board in that aspect.

#### **1.1.4 Purpose of performance management**

According to Armstrong (2001), Cole (2002) and Aswathappa (2000), the purpose of performance management is to identify and improve the individual's current level of job performance in relation to their contribution to organization's goals. They further affirm that, performance management is a tool to identify employees' strengths and weaknesses and enable them to improve their performance through Constructive criticism and guidance for purposes of improving the overall performance of the organization. In addition, performance management lets individuals know what is expected of them and solve job problems (Armstrong, 2001). Their position helps to affirm the fact that the overall performance of the organization in whatever it is doing is the sum total of the

performance of each and every employee in that organization. Therefore, a sound performance management of each employee will ultimately reflect positively reflect on the entire organization's performance.

## **1.2 Statement of the Problem**

A parastatal or a "quasi-autonomous national government organization" (Quango) is an entity that is treated by national laws and regulations to be under the guidance of the government, but also separate and autonomous from the government. While the entity may receive some revenue from charging customers for its services, these organizations are often partially or majorly funded by the government. They are usually considered highly important to smooth running of society, and are sometimes propped up with cash infusions in times of crisis to help surmount situations that would bankrupt a normal privately owned business. They may also possess law-enforcement authority, usually related to their functions (Wikipedia, 2010).

According to Sonja Easterbrook and Smith (1999), the introduction of Performance contracting in the public sector as a performance management tool for public sector reforms was driven by a growing concern that the government's own management practices were adversely affecting macroeconomic performance and the achievement of its own objectives. Performance contraction is used to communicate to the employees the goals and expectations of the organization on them, enhancing transparency and accountability of organization to the employees, the stakeholders and the government. The overall goal is to improve the performance of individuals and ultimately service delivery for the organization.

According to Muthaura (2007), performance management initiative has turned out to be a powerful tool in restoring and building trust in government that the public had almost lost hope in. He further states that performance contracting, as espoused through the service delivery charter of all parastatals has created a paradigm shift in management of public service by aligning service delivery with the values and needs of the public. Through

performance contraction, there is a perfect balance between the service delivery and cost containment thus delivering value for money in a cost-effective way (Charlotte, 1999).

Since the introduction of performance contracting, most government parastatals have continued to perfect their organizational performances by scoring better scores at the end of each performance contracting period. There has been a tremendous and measurable performance arising out of the performance contract initiative leading to international recognition and world acclaim through the UN Public Service Award, 2007 for improved transparency, accountability and responsiveness in public services (PSR and PC, 2008). Improved performance may also mean that the organization will experience increased productivity, efficiency and effectiveness in delivery of service to clients. The likely net effect is a satisfied public, which may also have a positive impact on prospective clients within the potential market (Robert, 2002).

While many studies have been carried out in this area touching on various sectors in Kenya, specific information on agro-based regulatory boards is lacking. With the importance of coffee to the Kenyan economy and its key role in poverty alleviation in line with vision 2030, service delivery of the Board as a crucial body that plays an oversight role in the coffee industry is paramount. Though a government parastatal, Coffee Board is fully funded by coffee growers through a levy on their coffee sales proceeds.

The study therefore intended to assess the effect of performance contracting on the service delivery of the Coffee Board of Kenya, a government parastatal in charge of the coffee industry. It captures and documents the service delivery transformation of the board since the introduction of the performance contracting as compared to the pre-performance contracting days. This in the process subtly mirrors the board with other sector parastatals to find out whether the positive changes seen in those parastatals have been replicated in the coffee sector thus contributing to the body of knowledge in this area.

## **1.3 Objectives of the Study**

### **1.3.1 General Objective**

The general objective of this study was to assess the effect of performance contracting on the service delivery of parastatals in Kenya, with a special reference to Coffee Board of Kenya.

### **1.3.2 Specific Objectives**

- (i) To establish the effect of the performance contracting on inspections carried out on the industry players.
- (ii) To investigate the effect of performance contracting on the creation of awareness among players and other industry stakeholders.
- (iii) To establish the effect of performance contracting on licensing of players in the coffee industry.
- (iv) To establish the effect of performance contracting on innovation(s) in the coffee industry.

## **1.4 Research Questions**

- (i) What is the effect of performance contracting on the inspections carried out on industry players?
- (ii) What is the effect of performance contracting on awareness creation by the Board on all industry players and other stakeholders?
- (iii) What is the effect of performance contracting on licensing of new players and retaining old players?
- (iv) What is the effect of performance contracting on innovation(s) in the coffee industry?

## **1.5 Significance of the Study**

The area of performance contracting has been popular with scholars in the last one and half decades not only in Kenya but the entire world over. This is underscored by the fact that emphasis in reforming the public service has been slowly shifting in many developing countries more towards operational effectiveness; which entails doing what one is doing better.

This study is significant to a number of stakeholders. First it's the management and staff of the coffee board of Kenya as it acts as a mirror to give on how the board has performed since the introduction of performance contracting in the eyes of the stakeholders that it serves. Other researchers would also use the research findings as a reference point for future research in this area as it contributes to the body of knowledge already in existence.

Other government parastatals would make a comparative analysis of their performance management through performance contracting in reference to their respective mandate and service delivery charter for further improvement and refining. Finally, the DPM would find the study significant in carrying out further extensive research into the area of performance contracting and appraisal as a tool of performance management and measurement.

## **1.6 Limitations of the Study**

This study encountered a number of limitations in the process of its executions namely:-

### **1.6.1 Resource inadequacy**

Due to inadequate financial resources at hand, the research was constrained in its execution as necessary cost cutting measures were employed to complete the study. This limitation was addressed by working with a sample population that was representative enough and borrowing additional resources from the researcher's SACCO since he was employed.

### **1.6.2 Time**

Noting that there was so much to be done but with very little time, the study was constrained as there was no enough time to be exclusively devoted to the study. This was addressed by taking a leave during data collection and analysis period.

### **1.6.3 Co-operation of respondents**

As had been anticipated, some respondents did not fully co-operate thus giving insufficient information. The researcher had tried to address this by designing a suitable

and friendly questionnaire and expanding the sample size beyond the recommended 10% to compensate for any non cooperation.

### 1.7 Scope of the Study

The scope of the proposed study was limited to the licensed industry value chain players from the farm to the market. This covered those players who were there before and after performance contracting numbering to 386 and categorized into five depending on the job they do in the industry.

#### 1.7.1 Concept of Performance Management

Performance management process is a continuous process of setting performance objectives, developing a plan, driving and coaching performance, and reviewing performance. The overall objectives of the process are to ensure that the organization achieves its strategic objectives, to structure, organize, manage, and coordinate the organization's resources, to monitor and measure performance, and to provide feedback and coaching to employees. Performance management is a key component of the system of management and is a critical factor in the success of an organization. According to Armstrong (2004) and other performance management experts, it is quite necessary to define performance management as the overall system of management that includes the process of setting performance objectives and the overall system of management that includes the process of setting performance objectives and the overall system of management that includes the process of setting performance objectives. The process of setting performance objectives is a key component of the system of management and is a critical factor in the success of an organization. According to Armstrong (2004) and other performance management experts, it is quite necessary to define performance management as the overall system of management that includes the process of setting performance objectives and the overall system of management that includes the process of setting performance objectives.

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## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter highlights the major issues relating to the concept of performance management in the public sector organizations and parastatals. Specifically, the study sought to assess the effect of performance management through performance contracting on the service delivery of the parastatals in Kenya, with a special reference to the Coffee Board of Kenya. The chapter presents the review of the literature in terms of a comprehensive appraisal of the major factors that relate to the service delivery charter of the coffee Board of Kenya since the performance contracting regime came into effect and also provides a summary of the research gaps and conclusion.

#### **2.2 The Concept of Performance Management**

Performance management practice encompasses a set of techniques used by the management to plan, direct and improve the performance of the employees in line with the overall objectives of the organization. It comprises performance planning design or redesign of structures, ongoing management of performance and review of performance. In performance management, goals are set and measured with the aim of improving the overall output of the system or organization, as per the mission and customer stated criteria. Armstrong (2001) said that performance measures are agreed when setting objectives. It is quite necessary to define not only what is to be achieved but also how the individual performers and the overall organization will know that it has been achieved. Parameters should provide evidence of whether or not the intended result(s) have been achieved and the extent to which the results have been achieved.

According to Latham (1984), performance management is defined as the cyclical, year-round process in which managers and employees work together on setting expectations. It includes activities to ensure that goals are consistently being met in an effective and efficient manner (McNamara, 2000). According to McNamara (2000), performance management can focus on performance of the entire organization, a department, processes to build a product or service and employees. McNamara(2000) notes that

because, performance management strives to optimize results and alignment of all subsystems to achieve the overall results of the organization, any focus of performance management within the organization (whether on a department, a process or employees) should ultimately affect the overall organizational performance management.

Achieving the overall organizational goals requires several ongoing activities, including identification and prioritization of desired results, establishing means to measure progress toward those results, setting standards for assessing how well results were achieved, tracking and measuring progress toward results, exchanging ongoing feedback among those participants working to achieve results, periodically reviewing progress, reinforcing activities that achieve results and intervening to improve the delivery of achievements where needed. This requires an elaborate performance measurement using an appropriate performance measurement system. The overall goal of performance measurement being to ensure that the organization and all of its subsystems (processes, departments, sections, employees, etc.), are optimally working together to achieve the results desired of and by the organization.

### **2.2.1 Performance Measurement**

According to Nelly (1998), performance measurement is the process of quantifying the efficiency and effectiveness of past action(s). It is the gathering of information about the work effectiveness and productivity of individuals, groups, and larger organizational units (Larsen and Callahan, 1990). It involves systematically collecting and strategically using information, on an ongoing basis, in an intra-and inter-organizational approach, and for a variety of internal and external purposes (Dusenbury, 2000). Performance measurement represents a process where the focus is on the internal process of quantifying the effectiveness and the efficiency of action within a set matrix (Neely et al, 1995). It represents management and control systems that produce information to be shared with internal and external users. Furthermore, as it encompasses all aspects of the business management cycle, it constitutes a process for developing and deploying performance direction (Nanni et al., 1992).

Performance measurement is traditionally viewed as an element of the planning and control cycle that captures performance data, enables control feedback, influences work behavior (Flamholtz et al., 1985) and monitors strategy implementation (Simons, 1990). From the foregoing it is apparent that performance measurement is concerned with an organization/department's efficiency and effectiveness. According to Nelly (1998) an organization's efficiency and effectiveness are the two most fundamental dimensions of performance and hence the two must be measured. Efficiency refers to how economically the organization's resources are utilized whereas effectiveness refers to how accurately the organizations products or services satisfy the customer's needs. Efficiency measures how successfully the inputs have been transformed into output whereas effectiveness measures how successfully the system achieves its desired outputs (Oxford Dictionary of business, 1996).

### **2.2.2 Performance Measurement Systems**

According to Ljungberg (1994) a measurement system is a set of related measures described by rules and procedures for capture, compilation and combination of data-that in combination reflect key performance and characteristics of a selected process effectively enough to admit intelligent analysis leading to action if needed. On his part Simons, (2000) defines performance management systems as "the formal, information-based routines and procedures managers use to maintain or alter patterns in organizational activities". These systems focus on conveying financial and non-financial information that influence decision-making and managerial action. The recording, analyzing, and distributing of this information is embedded in the rhythm of the organization and is often based on predetermined performance targets in the business cycle.

A performance measurement system enables informed decisions to be made and actions to be taken because it quantifies the efficiency and effectiveness of past actions through the acquisition, collation, sorting, analysis, interpretation and dissemination of appropriate data (Nelly, 1998). The system operates with exhaustive and carefully selected performance indicators that specify the types of evidence, qualitative and

quantitative, used to assess performance and results. These will include indicators of productivity, effectiveness, quality, timeliness, and responsiveness (Wholey, 1983).

### **2.3 Service Delivery**

According to Log associates (2010), the inclusion of citizens' service delivery charters and customer satisfaction surveys in the performance contract strategy were of particular significance. These are vital instruments for enhancing and measuring the quality of service delivery. With this, all the institutions carry out customer and client satisfaction surveys annually with the help of external consultants showing an improvement in Service delivery within the last five years.

To further cement the gains of this initiative, the government through the performance contracting department (PCD) in the Prime Minister's office has put a requirement for Public Agencies to be ISO certified. So far, some state corporations are already ISO certified while most others are in various stages of ISO certification and employees are being sensitized on ISO standards and requirements, documentation of procedures, appointment and training of Internal ISO Auditors.

There was a consensus that ISO Certification has had an impact on service delivery. For example, ISO 9001:2008 Certificate which most ISO Certified institutions have is about quality Management Systems (QMS). It seeks to get all employees to appreciate that they are both clients (internal) and service providers (to the external clients), that whether internal or external, clients have the right to receive quality service to their satisfaction and that officials have the obligation to provide quality service. Certification signifies that the quality of services rendered meets international standards which are a major boost to the credibility and demand for services. To this extent, it has an impact on service delivery (Log Associates, 2010). The consumer of the service remains the most important judge of the performance of the agency. The government has sought to encourage the public to continuously give a score card to its agencies through the slogan that "Huduma bora ni haki yako"(Good service is your right).

## **2.4 The Legal Mandate**

All Parastatal organizations are established through an Act of parliament. The Act gives them their very basis of existence and goes ahead to stipulate how they are supposed to be structured and governed in accordance with the purpose for which they are established. Despite having some degree of autonomy, parastatal organizations are anchored on the relevant line ministry which acts as the link between the organization and the national government and thus able to align her mandate to the national policy agenda. The Minister for the time being in charge of the line ministry appoints the Board of Directors and also the Chief executive and maintains an oversight role on that particular organization. The Coffee Board of Kenya is established for the purpose of promoting production, processing and marketing of coffee, and to generally regulate the coffee industry, to promote competitiveness in the industry and to brand Kenya coffee in the national interest (Coffee Act No. 9 of 2001).

### **2.4.1 Inspection of industry players**

In government and politics, an inspection is the act of a monitoring authority administering an official review of various criteria (such as documents, facilities, records, and any other assets) that are deemed by the authority to be related to the inspection. Inspections are used for the purpose of determining if a body is complying with regulations and standards. The inspector examines the criteria and talks with involved individuals. A report and evaluation follows such visits (Wikipedia 2010).

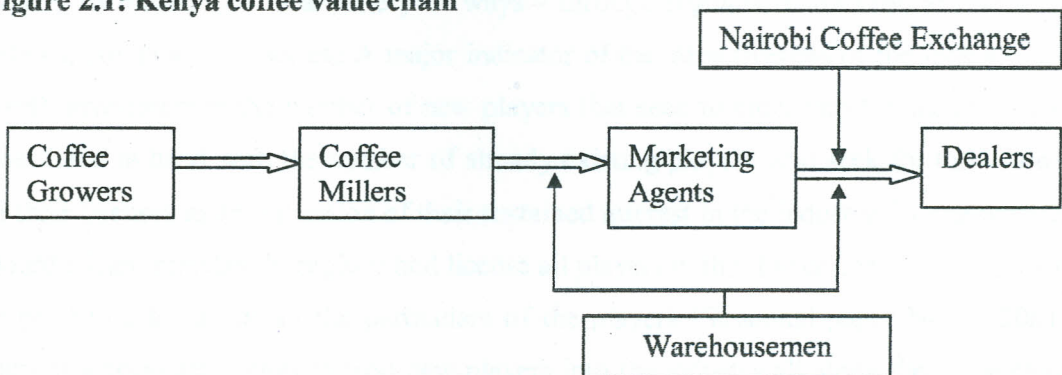
Other scholars such as Kennedy, Hoffman and Bond (1987), have looked at inspection as the critical examination of something directed to some pre-determined purpose. It is the function of comparing or determining the conformity of a product or service to the requirements. The whole purpose of the exercise is to enforce conformity and compliance by the industry players. However, as argued by Malcolm K. Sparrow (2003), any wrong approach to inspection can have very adverse effects by providing for unethical players to carry out harmful practices to the detriment of the industry.

As the industry regulator, the Board is obliged to ensure that certain standards are met and complied with by all players in order to maintain the integrity of the industry as a whole, and also that of Kenya coffee as a product both locally and internationally (Coffee Board of Kenya strategic Plan 2009/012). This is done through routine inspections with a checklist to ensure that everything is being done as stipulated and in accordance with the provisions of the specific license issued to the particular player (CBK service delivery charter). At least one inspection is carried out during the quarter and this enables the Board to maintain a record of the activities of that particular player.

#### 2.4.2 Creation of awareness to all stakeholders

Huber and Pallas (2006) have defined a stakeholder as any person or interest group that has a stake in a company, an institution or an industry. Communication in the modern stakeholder management must also take into account the stakeholder communication with one another, which is a necessary pre-requisite for corporate success (Springer and Pfannenber, 2004). The manner in which that communication takes place within the various groups of stakeholders is crucial for the success of the company. In any activity, an organization undertakes whether strategic, operational or tactical, the activity can only be successful with the engagement, contribution and support of the stakeholders (Lynda, 2009). Simply put, stakeholder engagement assists the company create a realistic business strategy (Anne, 1998). The coffee industry value chain has several categories of players both direct and indirect that can be called the key stakeholders (Mukuna, 2003), as shown here below:-

**Figure 2.1: Kenya coffee value chain**



Due to the dynamism of the industry, the board appreciates the need to manage these stakeholders through regular interactions in order to keep them abreast of the various policy and legal changes as well as obtain a feedback in order to enhance her service delivery to the industry. This is done through workshops, seminars, field days etc.

#### **2.4.3 Licensing of new players and retaining existing players**

According to the Wikipedia free encyclopedia (2010), a license may be granted by a party ("licensor") to another party ("licensee") as an element of an agreement between those parties. A shorthand definition of a license is "an authorization (by the licensor) to use the licensed material (by the licensee)." In today's fast-paced and ultra-competitive and high tech business environment, an efficient and effective management of the licensing program is a must (Lenon, 2007). In particular a license may be issued by authorities, to allow an activity that would otherwise be forbidden. According to Battersby and Grime (2001), forms and checklists put at the fingertips all the essential tools needed to draft, negotiate and finalize the licensing procedures quickly and efficiently. It may require paying a fee and/or proving a capability. The requirement may also serve to keep the authorities informed on a type of activity, and to give them the opportunity to set conditions and limitations.

This authority in Kenya is vested on the regulatory bodies of which the Coffee Board of Kenya is. By definition, a regulatory agency is a government department that has responsibility over the legislation (acts and regulations) for a given sector (Wikipedia free encyclopedia). Regulatory agencies exist at the national and local level, and can impact a variety of businesses, in a variety of ways - through regulations on products, antitrust rulings, compliance laws, etc A major indicator of the attractiveness of the industry as a worth investment is the number of new players that seek to enter into the industry. This goes hand in hand with the number of already existing players who seek for the renewal of their licenses as an indication of their sustained interest in the industry. In line with the Board's legal mandate to register and license all players within the coffee value chain and to be the custodian of all the particulars of the players (Sessional paper No. 2, 2001), there is a consistent effort to woo new players into the industry all along the value chain

while at the same time encouraging seeking to retain those who are already there. That way, the competitiveness of the industry is enhanced for the overall good of all players and the industry at large.

#### **2.4.4 Innovations in the industry**

Innovation is about introduction of change(s) in the business arena. The level of innovation in a sector underpins a dynamic variable in the equation of a successful sector. As Jones and Thomson (2007) notes, the terminology used widely to label changes now occurring in the conduct of the public sector business is 'Managerialism.' With business environments always dynamic, the only way corporates can remain competitive is through innovation. The parastatals are not exempted from this and hence the need to continuously appraise and take stock of the number and the level of innovations unveiled in the sector at any one time.

According to Hippel, (1977) innovations can be initiated by the customers or users and not necessarily by the goods or service provider. In most cases, user driven innovation is not based on any formal R & D knowledge but purely inspired by an innate sense of creativity within a person(s). Newcomer, Jennings et al. (2002); and Poister (2003), see the strategic use of performance management as thus intended to help drive change efforts from process to results orientation in the public service.

When the marketing of Kenya coffee solely through the central auction was challenged for lack of competitiveness and grower involvement, the Board came up with an innovative way of marketing the coffee through direct sales commonly referred to as the second window (COFFEE (GENERAL) (AMENDMENTS) RULES, 2005). This has helped farmers upscale and also mainstreams them into coffee business thus creating stronger and mutually beneficial relationships with the coffee buyers abroad as well as building the capacity for of the most crucial player in the coffee value chain.

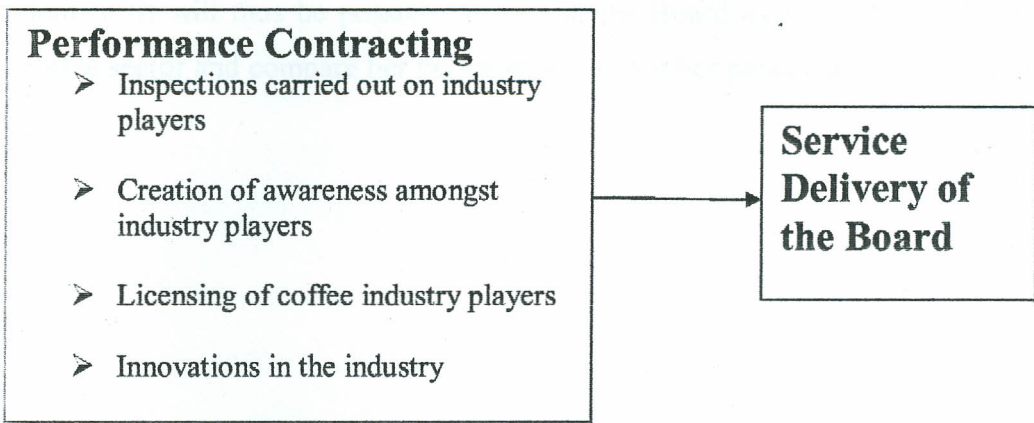
## 2.5 Conceptual Framework

To explain the relationship between independent and dependant variables, the researcher has developed a model as shown below in figure 2.5, where the service delivery of a parastatal organisation in Kenya, in this respect the Coffee Board of Kenya is influenced by the performance of the same in the various functional areas that the organization focuses on in line with its legal mandate and the service delivery charter.

**Figure 2.2: Conceptual Framework: (Researcher 2012)**

### Independent Variables

### Dependent Variable



## 2.6 Summary and Research Gaps

Researches carried out have shown the great importance concerning performance management. In some instances, the terms performance management and performance contracting have been used interchangeably. According to a survey carried out by Hays and Kearny (2001) the need for performance management will not diminish in the public sector now and in future. By improving the probability that good performance will be recognized and rewarded and poor performance corrected.

The importance of performance has been fully and clearly embraced by recent introduction of performance contracts (2005), such as the one between the Coffee Board of Kenya and the Kenyan government. In the contract the parties recognize the need for

adequate and reasonable marginal and optimal autonomy to facilitate achievement by the Chief Executive Officer of the Coffee Board of Kenya of the agreed and freely negotiated performance targets as spelt out in the contract. The parties are also desirous of promoting transparency in the management of public resources, accountability for the resources and enhancing service delivery to all the stakeholders hence achieving the very objective as to why the government of Kenya in the 1990's resulted to performance reform management through performance contracting. It is on this basis that the researcher, having found out that very little information has been documented on the performance of the Board especially for the benefit of the coffee farmer who funds the Board about its service delivery evolution since the introduction of the Performance Contracting initiative, that he intended to document and put this information in the public domain. It will thus be possible to look at the Board as a facilitator of business in the coffee sector and compare her performance with other parastatal in other sectors.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter describes the research methodology which was used to achieve the objectives of this study. These include research design, target population, sample size, sampling techniques, data collection tools, data analysis techniques and data presentation applied in the study.

#### **3.2 Research Design**

This study adopted a descriptive survey research design. This is likely to capture the information that would adequately solve the research problem as it was seeking to capture peoples' feelings about a service by a government agency (Benhofer and Peterson, 2000). This method was used to describe peoples' opinions and feelings towards the Board in the discharge of its mandate now and in the past during pre PC days.

##### **3.2.1 Target Population**

The target is the various coffee industry value chain players who are served by the Board starting from the farm to the market. The grower representation was drawn from the central region of Kenya comprising of Kiambu, Murang'a and Nyeri counties from where 70% of the coffee in Kenya is grown by ninety (90) farmers' cooperative societies and about 200 small and medium estates. Out of the ten (10) dry coffee millers and marketing agents, six (6) have established their dry coffee mills and other field operations in that region. The sampling frame is all those industry players in existence before and after the introduction of performance contracting. The representation of the traders; coffee dealers and warehousemen was drawn from Nairobi where they were all based. This gave a target population of 386 players in five (5) categories.

### 3.2.2 Sampling Design and Sampling Technique

A sample from every category of players was studied. The researcher used stratified random sampling, which aimed at achieving desired representation from all categories of the coffee value chain. In stratified random sampling, the subjects were randomly selected from every category of coffee value chain players with each member of the sub group having an equal probability of being selected. The strata were based on the type of business within the coffee value chain, namely; cooperative growers, small and medium estate growers, coffee millers / marketing agents, coffee dealers/buyers and the coffee warehousemen. Stratum size was restricted to all those players with a valid operating license issued by the board.

A sample size equivalent to 10% of the target population is sufficiently representative for the purpose of the study (Mugenda and Mugenda, 2003). From the above population of 386, the focus of this study was 20% of the population of each value chain player category, which was higher than the 10% recommended by Mugenda and Mugenda (2003) in order to accord an allowance in case of non-responsiveness by some respondents in the course of the study thus arriving at a sample size of 77 respondents as follows:-

**Table 3.1: The Study Population and Sample**

Category	Population	Sample (20%)
1 Cooperative Societies.	86	17
2 Small and Medium Estates	200	40
3 Millers and Marketing Agents	10	2
4 Licensed Coffee Dealers	80	16
5 Coffee Warehousemen	10	2
<b>Total</b>	<b>386</b>	<b>77</b>

Source: (Researcher, 2012)

### 3.3 Pretesting

Pretesting of the instrument was carried out on five (5) value chain players, one from each category who was not included in the study sample. This helped in refining or removal of vague questions, detection of deficiencies in the tool and assess whether the method of data collection was appropriate (Mugenda and Mugenda, 2003).

### **3.4 Data Collection instrument**

Data for this study was collected by means of questionnaires with both open and closed ended questions which were coded for computer analysis (Kothari, 2004). They were administered through drop and later pick method. The method is appropriate because it eliminates any biases or personal opinion on the respondents and also gives them ample time to understand the questions and fill the questionnaires.

### **3.5 Validity and Reliability**

Validity and reliability was obtained through pre-testing of the instruments of the research. Pretesting was done where the researcher presented the questionnaires to a small group which was not included in the sample. This helped in detecting items with ambiguity in the questionnaire which were corrected. The result were used to find out if there was any degree of consistency and this helped to ascertain the validity and reliability of the instruments.

### **3.6 Data Analysis**

Data collected was analyzed through content analysis for qualitative data while the quantitative data was analyzed by use of descriptive statistics such as the Mean, Mode and the Median.

### **3.7 Data Presentation**

Data collected was presented by use of charts, graphs and tables. This enhances clarity and simplicity which fosters a greater understanding of the data collected and the information it communicated.

## CHAPTER FOUR

### RESULTS AND DISCUSSIONS

#### 4.1 Introduction

This chapter presents data analysis and discussions of the study findings on effects of performance contracting on service delivery of Kenya parastatals, a case of the coffee board of Kenya. The analysis is based on research questions and objectives as identified in the study and then analyzed using SPSS version 16. The results have been presented in form of tables, charts and graphs.

#### 4.2 Background information

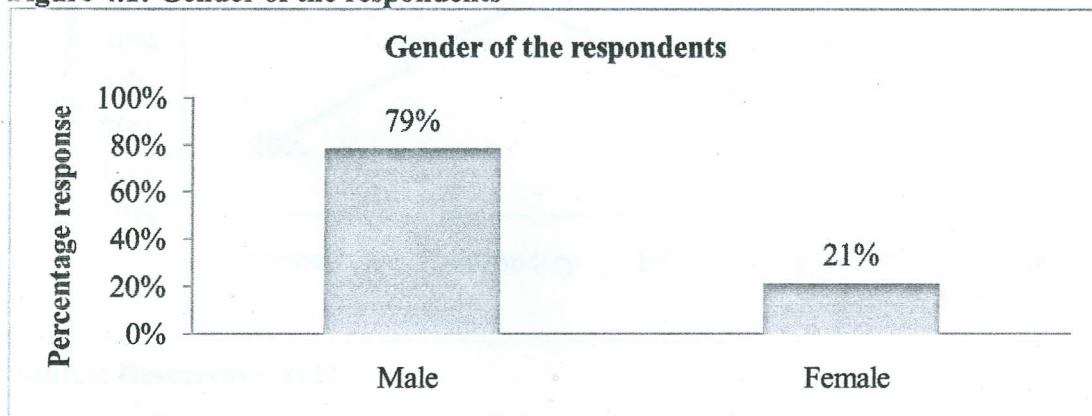
##### 4.2.1 Response rate

This study had targeted 77 respondents which were computed as shown in chapter three (Table 3.1). However, due to the study limitation, 70 responses were achieved which represent 91% response rate. This formed the basis for the analysis presented in this chapter.

##### 4.2.2 Gender of the respondents

The researcher sought to establish the Gender of the respondents.

**Figure 4.1: Gender of the respondents**



Source; (Researcher, 2012)

From the figure 4.1above, 79% are male and 21% female. Thus the majority of respondents were men.

### 4.2.3 Age of the respondents

The researcher sought to establish the Age of the respondents.

**Table 4.1: Age of the respondents**

Age of the respondents	Frequency	Percent
24-34 years	4	6
35-44 years	28	40
45-54 years	26	37
Above 55 years	12	17
<b>Total</b>	<b>70</b>	<b>100.0</b>

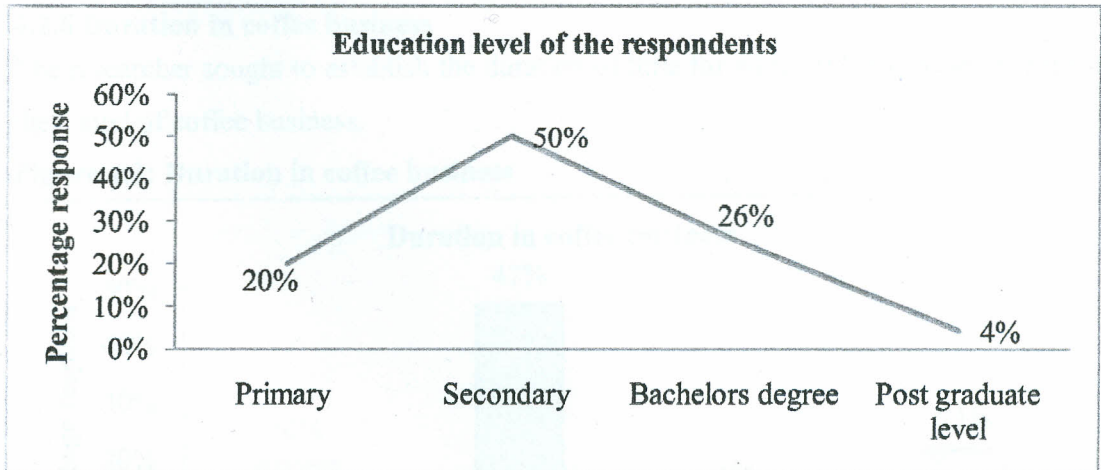
**Source: researcher 2012**

From the table 4.1 above (40%) of the respondents were aged between 35-44 years, 37% were aged between 45 and 54 years, 17% were above the age of 55 years while only 6% were aged between 24-34 years (Table 4.1). This implies that the coffee business is mostly dominated by elderly persons and may not be attractive to the youth.

### 4.2.4 Academic qualification

The researcher sought to establish the Academic level of the respondents.

**Figure 4.2: Education level of the respondents**



**Source: Researcher, 2012**

From the figure 4.2 above, 50% of the respondents had up to secondary school qualification, 26% had a Bachelors degree, and 20% had primary education while only 4% had post graduate qualifications Thus majority of the respondents were up to Secondary school educated with no tertiary or post secondary education.

#### 4.2.5 Type of coffee businesses

The researcher sought to find out the kind of coffee business that the respondents were carrying out within the coffee value chain.

**Table 4.2: Type of coffee businesses**

Type of coffee businesses	Frequency	Percent
Coffee cooperation	20	28
Small and medium growers	32	46
Coffee millers / marketing	2	3
Coffee dealers	14	20
Coffee warehouse men	2	3
<b>Total</b>	<b>70</b>	<b>100.0</b>

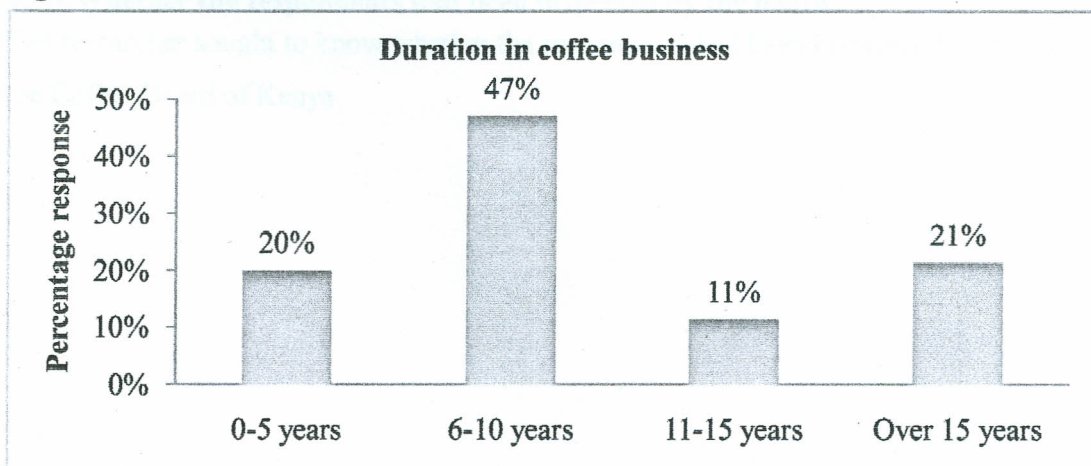
Source: Researcher 2012

From the table 4.2 above, 46% of the respondents was small and medium estate growers, 28% were coffee cooperatives, 20% were coffee dealers, 3% were coffee millers/marketing agents while 3% were coffee warehousemen. This implies that majority of the industry players in the study area were small and medium estate growers while the coffee millers and coffee warehousemen were the least.

#### 4.2.6 Duration in coffee business

The researcher sought to establish the duration of time for which the respondents had run their kind of coffee business.

**Figure 4.3: Duration in coffee business**



Source: Researcher 2012

According to the figure 4.3 above, 47% of the respondents had between 6 to 10 years of experience, 21% had over 15 years, and 20% were below 5 years while 11% of the

respondents had between 11 and 15 years. This implies that the respondents were well informed about their line of business in the coffee industry thus giving accurate information.

**4.2.7 Involvement in other lines of coffee business other than current one**

The researcher sought to establish if the respondents were involved in any other line of coffee business besides the one they were engaged in at the time of the study.

**Table 4.3: Involvement in other line of coffee business other than current one**

<b>Involvement in other line of coffee business</b>	<b>Frequency</b>	<b>Percent</b>
Yes	22	31
No	48	69
<b>Total</b>	<b>70</b>	<b>100.0</b>

**Source: Researcher 2012**

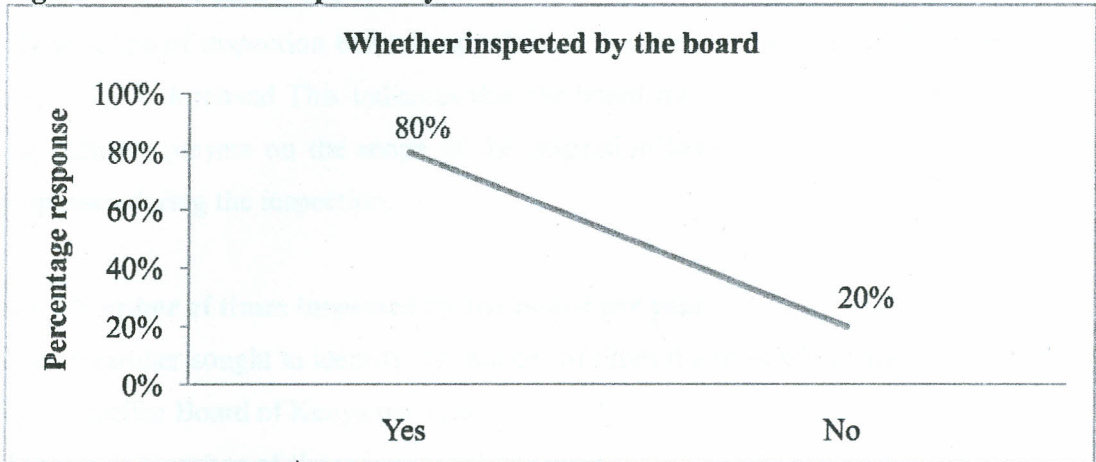
From the above table 4.3, 69% of the respondents had not involved themselves in other lines of coffee business apart from the one they held then, while 31% had been involved in other lines of coffee business other than the one they held then. Thus a high degree of specialization and therefore majority of the respondents were well versed with their line

**4.3 Inspection of industry players by the Coffee Board of Kenya**

**4.3.1 Whether the respondents had been inspected by the board**

The researcher sought to know whether the respondents had been inspected by officers of the Coffee Board of Kenya

**Figure 4.4: Whether inspected by the board**



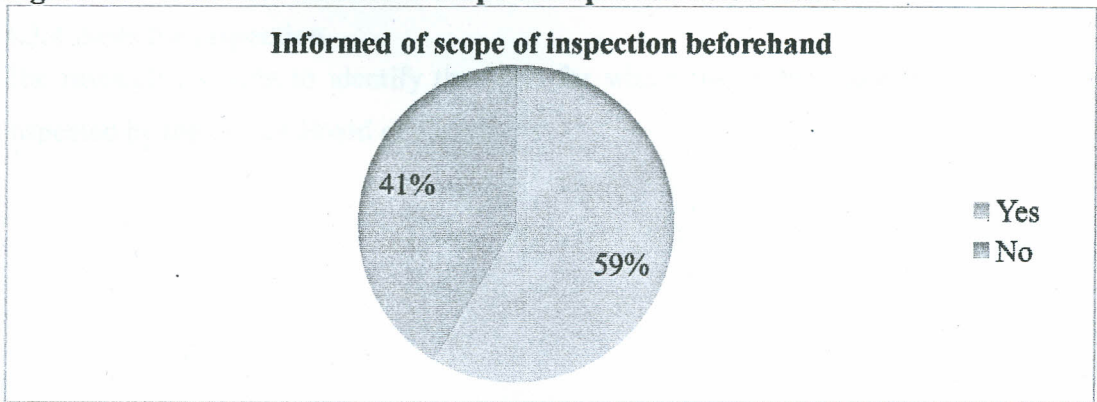
**Source: Researcher 2012**

From figure 4.4 above, 80% of the coffee industry players had been inspected by the board while only 20% of the industry players had not been inspected by the board. The board has strived to inspect most industry value chain players in the study area for compliance with the set industry operational standards. Still there is need to inspect the remaining industry players in order to improve on the service delivery to all players in the coffee industry.

#### **4.3.2 Informed of scope of inspection by the board beforehand**

The researcher sought to know whether the respondents had been informed of the scope of inspection by the Coffee Board of Kenya beforehand.

**Figure 4.5: Whether informed of scope of inspection before hand**



**Source: Researcher 2012**

As illustrated in figure 4.5, 59% of the coffee inspected industry players were informed of the scope of inspection beforehand while 41% were not informed of the scope of the inspection beforehand. This indicates that the board tries as much as possible to inform the industry players on the scope of the inspection beforehand thus ensuring accurate responses during the inspection.

#### 4.3.3 Number of times inspected by the board per year

The researcher sought to identify the number of times the respondents had been inspected by the Coffee Board of Kenya per year.

**Table 4.4: Number of times inspected per year**

<b>Number of inspections per year</b>	<b>Frequency</b>	<b>Percent</b>
None	14	20
Once	23	33
Twice	18	26
Thrice	15	21
<b>Total</b>	<b>70</b>	<b>100.0</b>

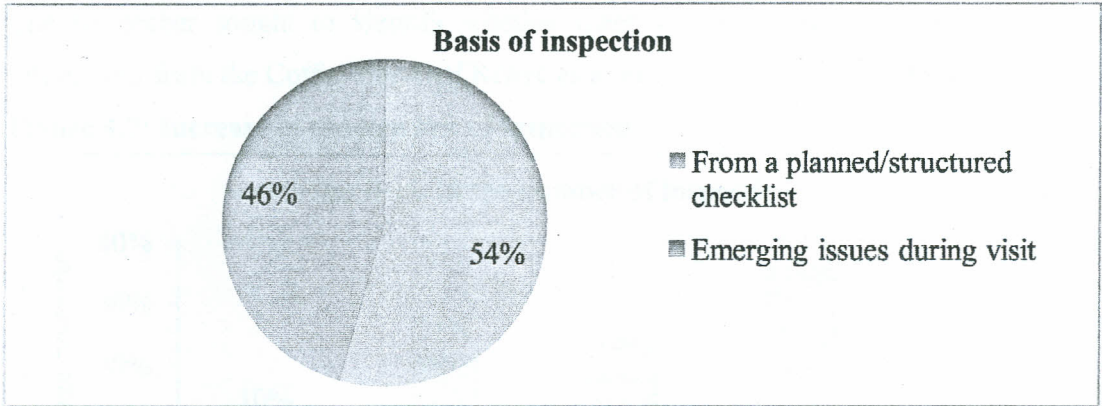
**Source: Researcher 2012**

From the table 4.4 above, 33% of the coffee industry players had been inspected once, 26% had been inspected twice, and 21% had been inspected thrice while 20% had never been inspected. This shows that the board still had some players which they had never inspected thus the need for a more intensified inspection to cover all the players. This would ensure increased service delivery to all the coffee industry players.

#### 4.3.4 Basis for inspection

The researcher sought to identify the basis for which the coffee industry players were inspected by the Coffee Board of Kenya.

**Figure 4.6: Basis of inspection**



**Source: Researcher 2012**

According to figure 4.6 above, 54% of the inspected coffee industry players were inspected from a planned or structured checklist while 46% were inspected on the basis of emerging issues during the visit. The result indicate that due to performance contracting the board plans for the inspection and prepares a checklist for the inspection thus improving on its service delivery in line with its mandate.

#### **4.3.5 Satisfaction with the inspection by the board**

The researcher sought to know whether the industry players were satisfied with the inspection by the Coffee Board of Kenya.

**Table 4.5: Satisfaction with the inspection**

Satisfaction with the inspection	Frequency	Percent
Yes	53	93
No	4	7
<b>Total</b>	<b>57</b>	<b>100.0</b>

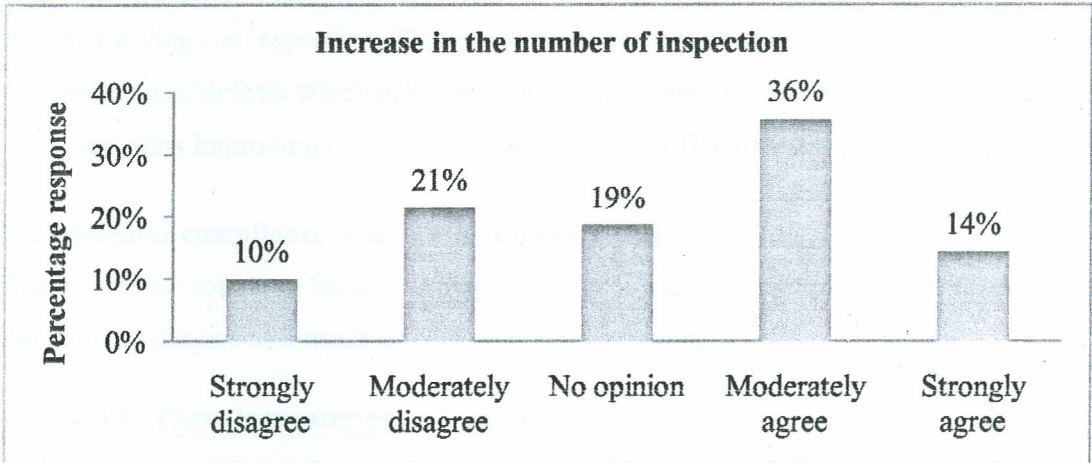
**Source: Researcher 2012**

As illustrated in the table 4.5 above, 93% of the respondents were satisfied with the inspection with 7% not satisfied with the inspection implying that majority of those interviewed were satisfied with the inspection from the board showing that the satisfaction shows an increased service delivery by the board due to performance contracting.

#### 4.3.6 Increase in the number of inspections by the board

The researcher sought to identify whether there was an increase in the number of inspections from the Coffee Board of Kenya as a result of performance contracting.

Figure 4.7: Increase in the number of inspection



Source: Researcher 2012

From figure 4.7 above, 50% of the respondents were of the opinion that performance contracting had led to an increase in the number of inspections, 31% were of contrary opinion indicating that the performance contracting has not led to an increase in the number of inspections while 19% had no idea whether the performance contracting had increased the number of inspections. This indicates that performance contracting should be encouraged and promoted since it leads to increased inspection of the coffee industry players.

#### 4.3.7 Few defects detected during the inspections by the board

The researcher sought to identify whether there were any defects detected during the inspection by the Coffee Board of Kenya.

Table 4.6: Few defects detected in the inspections

Defection in inspection	Frequency	Percent
Strongly disagree	5	8
Moderately disagree	18	26
No opinion	21	30
Moderately agree	17	24
Strongly agree	9	12
<b>Total</b>	<b>70</b>	<b>100.0</b>

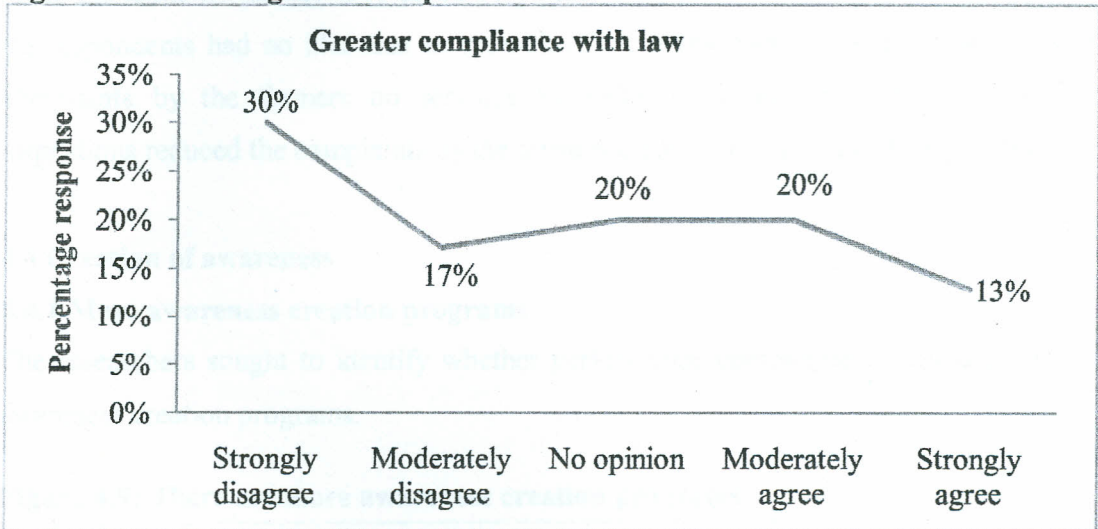
Source: Researcher 2012

As indicated in the table 4.6, 36% of the respondents were of the opinion that there were fewer defects detected in the inspection as a result of increased inspections, 34% were of contrary opinion indicating that increased inspections had not led to fewer defects being detected during the inspection while 30% had no idea whether there were fewer defects detected during the inspection. This shows that the performance contracting improves in the detection of defects which arises during the inspection thus identifying the areas to be improved, thus improving the performance of all the coffee industry players.

#### 4.3.8 Greater compliance with law by industry players

The researcher sought to identify whether there was a greater compliance with the law by the industry players as a result of performance contracting.

**Figure 4.8: There is greater compliance to law**



Source: Researcher 2012

From figure 4.8 above, 47% of the respondents disagreed with the statement that performance contracting has led to greater compliance with the law by the industry players, 33% were of the opinion that indeed there was greater compliance with the law while 20% had no idea of whether the performance contracting leads to a greater compliance with the law. This indicates that the compliance with the law by the industry players does not necessarily relate to the inspection of industry players and they may comply with the law with or without inspections.

### 4.3.9 Few complaints by farmers

The researcher sought to identify whether there were few complaints from the farmers as a result of performance contracting

**Table 4.7: Few complaints by farmers**

	Frequency	Percent
Strongly disagree	8	11
Moderately disagree	16	23
No opinion	12	17
Moderately agree	25	36
Strongly agree	9	13
<b>Total</b>	<b>70</b>	<b>100.0</b>

Source: Researcher 2012

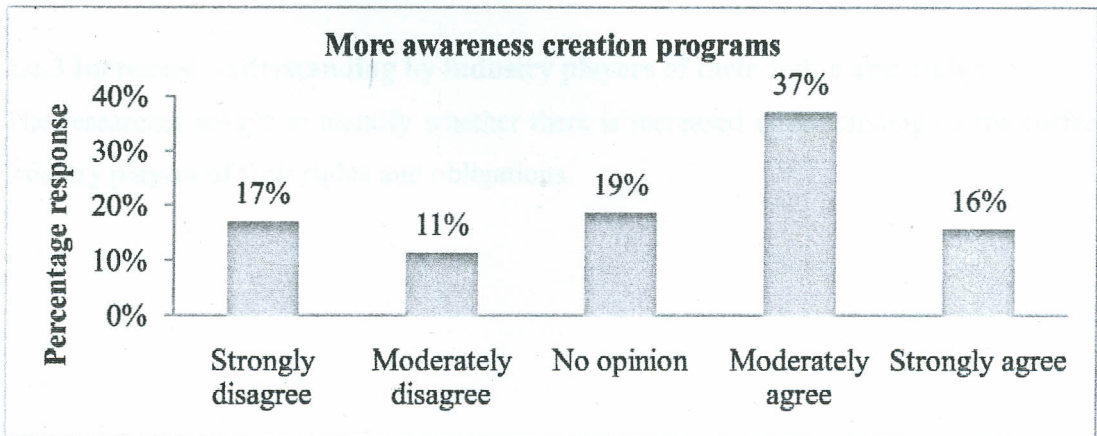
From the table 4.7 above, 49% of the respondents agreed, 34% disagreed while 17% of the respondents had no idea that as a result of increases inspections, there were fewer complaints by the farmers on services by value chain players. This implies that inspections reduced the complaints by the farmers on services by value chain players.

### 4.4 Creation of awareness

#### 4.4.1 More awareness creation programs

The researchers sought to identify whether performance contracting brings about more awareness creation programs.

**Figure 4.9: There are more awareness creation programs**



Source: Researcher 2012

As illustrated in figure 4.9, 53% of the respondents agreed, 38% disagreed while 19% had no opinion about the idea that there were more awareness creation programs indicating that there are more awareness' programs created as a result of performance contracting and that it should be encouraged in order to create more awareness to the coffee industry players.

**4.4.2 Greater awareness among the coffee industry players**

The researcher sought to identify whether there was increased awareness among the coffee industry players as a result of performance contracting.

**Table 4.8: Greater awareness among industry players**

	<b>Frequency</b>	<b>Percent</b>
Strongly disagree	4	6
Moderately disagree	5	7
No opinion	15	21
Moderately agree	33	47
Strongly agree	13	19
<b>Total</b>	<b>70</b>	<b>100.0</b>

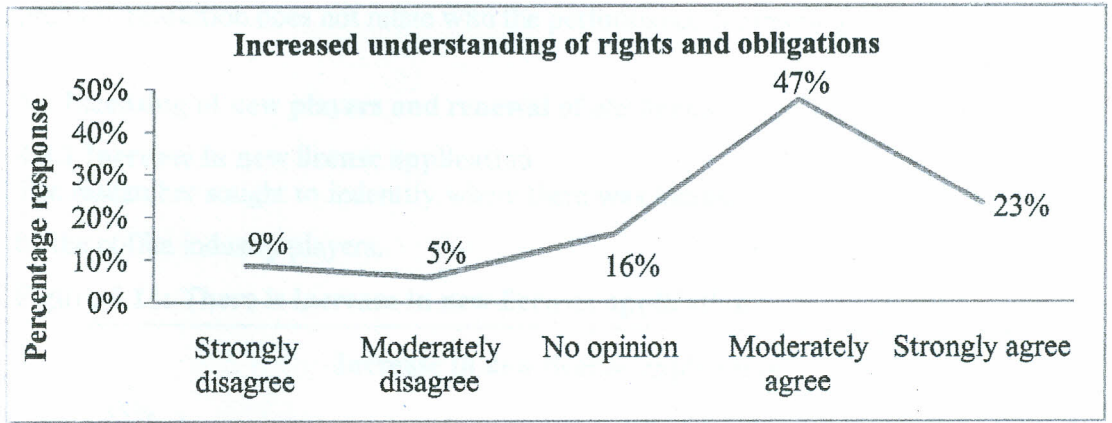
**Source: Researcher 2012**

Form table 4.8 above, 66% of the respondents agreed, 21% had no opinion while 13% of the respondents disagreed with the statement that performance contracting leads to greater awareness among industry players. Thus, performance contracting leads to creation of more awareness among the industry players.

**4.4.3 Increased understanding by industry players of their rights and obligations**

The researcher sought to identify whether there is increased understanding by the coffee industry players of their rights and obligations.

**Figure 4.10: There is increased understanding of rights and obligations**



**Source: Researcher 2012**

As reported in figure 4.10 above, 70% of the respondents were of the opinion that performance contracting leads to greater understanding by industry players of their rights and obligations, 16% had no opinion about increased understanding of rights and obligations by industry players while only 14% of the respondents were of the contrary opinion indicating that performance contracting has not led to increased understanding of rights and obligations by industry players. This indicates that performance contracting leads to increased understanding of rights and obligations by the coffee industry players.

#### 4.4.4 Less time taken in problem resolution

The researcher sought to identify whether as a result of performance contracting, there was reduced time taken in problem solving.

**Table 4.9: Less time taken in problem resolution**

	Frequency	Percent
Strongly disagree	13	19
Moderately disagree	19	27
No opinion	17	24
Moderately agree	14	20
Strongly agree	7	10
<b>Total</b>	<b>70</b>	<b>100.0</b>

**Source: Researcher 2012**

From table 4.9 above, 46% of the respondents disagreed, 30% agreed while 24% had no opinion on whether performance contracting reduces the time taken in problem

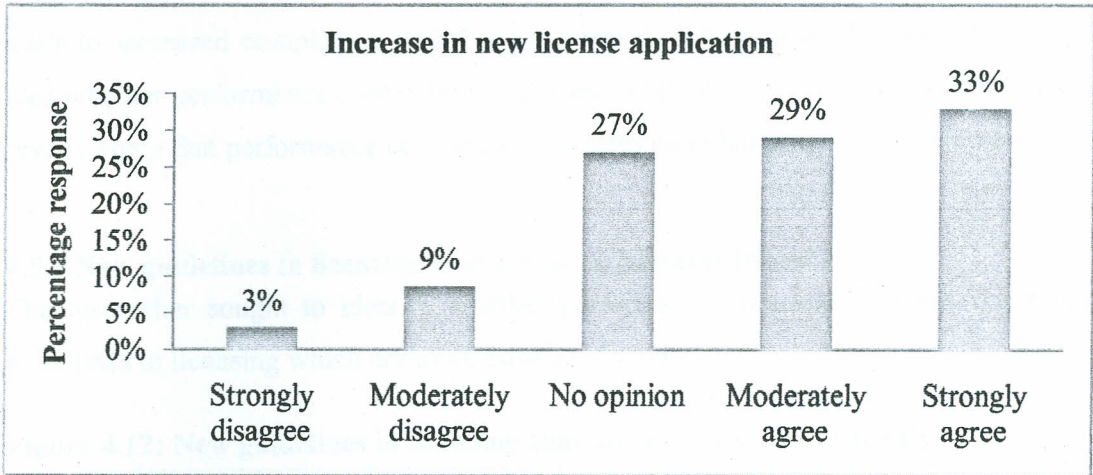
resolution. This indicates that with or without performance contracting, the time taken in problem resolution does not relate with the performance contracting.

#### 4.5 Licensing of new players and renewal of old licenses

##### 4.5.1 Increase in new license application

The researcher sought to identify where there was increased application of new licenses by the coffee industry players.

**Figure 4.11: There is increase in new licenses application**



Source: Researcher 2012

According to figure 4.11 above, 62% of the respondents agreed with the statement that with performance contracting, there is increased new license application, 27% had no opinion about whether there is increased application of new licenses while only 12% of the respondents disagreed with the statement that performance contracting increases new license application. This indicates that performance contracting increases new application of licenses in the coffee industry players.

##### 4.5.2 Increased compliance with license renewal among coffee industry players

The researcher sought to identify whether there was increased compliance with the license renewal among the coffee industry players as a result of performance contracting.

**Table 4.10: Increased compliance with license renewal**

	Frequency	Percent
Strongly disagree	8	11
Moderately disagree	14	20
No opinion	21	30
Moderately agree	15	22
Strongly agree	12	17
<b>Total</b>	<b>70</b>	<b>100.0</b>

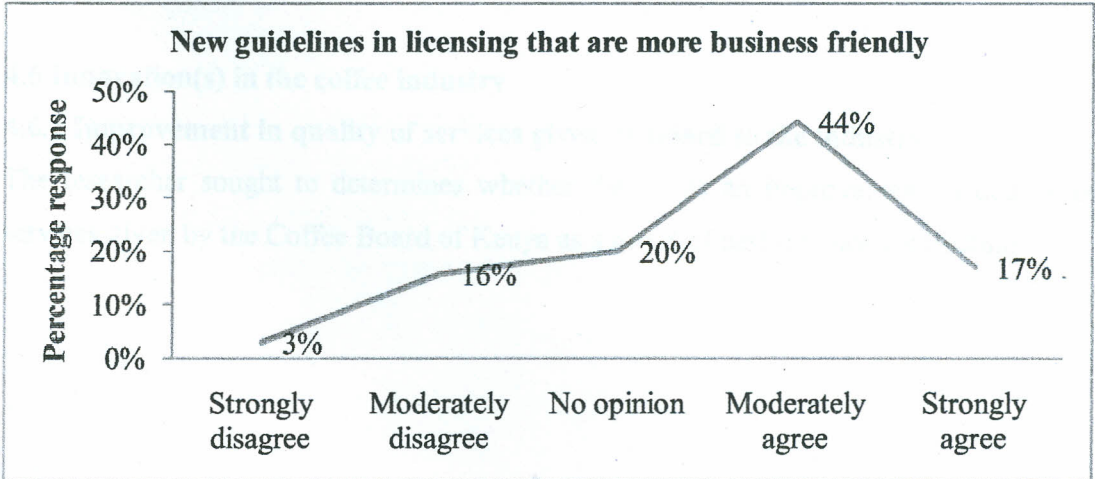
**Source: Researcher 2012**

From the table 4.10 above, 39% of the respondents agreed that performance contracting leads to increased compliance with license renewal, 31% disagreed while 30% had no idea whether performance contracting increases compliance with license renewal. These results imply that performance contracting increases compliance with license renewal.

#### 4.5.3 New guidelines in licensing that are more business friendly

The researcher sought to identify whether performance contracting brings about new guidelines in licensing which are more business friendly.

**Figure 4.12: New guidelines in licensing that are more business friendly**



**Source: Researcher 2012**

From figure 4.12 above, 61% of the respondents agreed that performance contracting brings about new guidelines in licensing which are more business friendly, 20% did not have an idea whether performance contracting brings about new guidelines in licensing which are more business friendly while 19% of the respondents disagreed with the statement that performance contracting brings about new guidelines in licensing and

which are more business friendly. Thus, performance contracting brings about new guidelines in licensing and that are more business friendly.

#### 4.5.4 Licensing process lead-time reduced

The researcher sought to identify whether performance contracting leads to licensing process lead-time reduced

**Table 4.11: Licensing process lead-time reduced**

	Frequency	Percent
Strongly disagree	3	4
Moderately disagree	9	13
No opinion	19	27
Moderately agree	27	39
Strongly agree	12	17
<b>Total</b>	<b>70</b>	<b>100.0</b>

**Source: Researcher 2012**

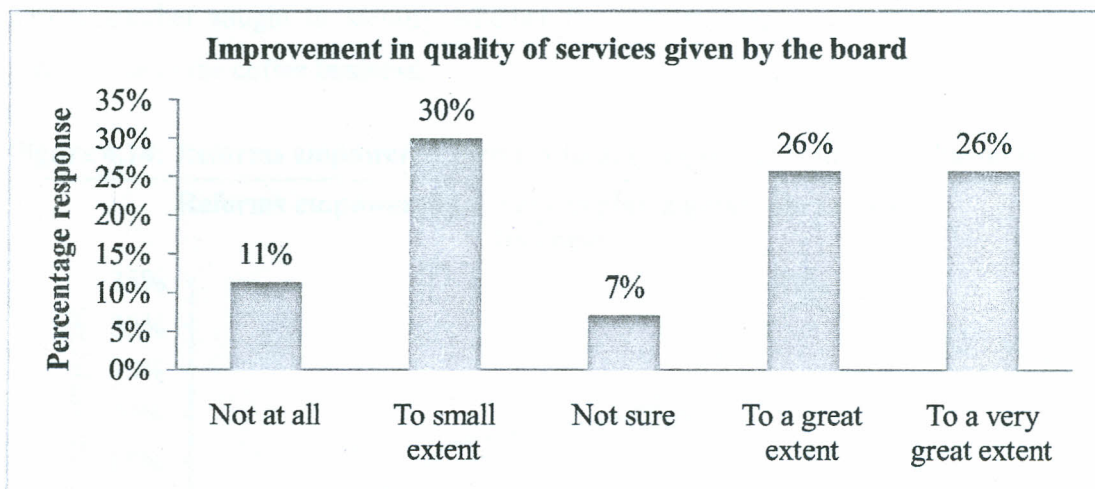
From the table 4.11 above, 56% of the respondents agreed, 27% had no opinion while 17% disagreed with the statement that performance contracting leads to licensing lead-time being reduced. This indicates that performance contracting leads to reduction of licensing lead-time.

#### 4.6 Innovation(s) in the coffee industry

##### 4.6.1 Improvement in quality of services given by board to the industry

The researcher sought to determine whether there was an improvement in quality of services given by the Coffee Board of Kenya as a result of performance contracting.

**Figure 4.13: Improvement in quality of services given by the board**



**Source: Researcher 2012**

As described in figure 4.13 above, 30% of the respondents agreed to a small extent, 26% and 26% agreed to a great extent and very great respectively, 11% disagreed while 7% were not sure whether performance contracting improves quality of services given by the board. This implies that performance contracting improves on the quality of services given by the board.

#### 4.6.2 Improvement in formulation of new policies

The researcher sought to determine whether performance contracting leads to improvement in formulation of new policies.

**Table 4.12: Improvement in formulation of new policies**

	Frequency	Percent
Not at all	19	27
To small extent	16	23
Not sure	5	7
To a great extent	20	29
To a very great extent	10	14
<b>Total</b>	<b>70</b>	<b>100.0</b>

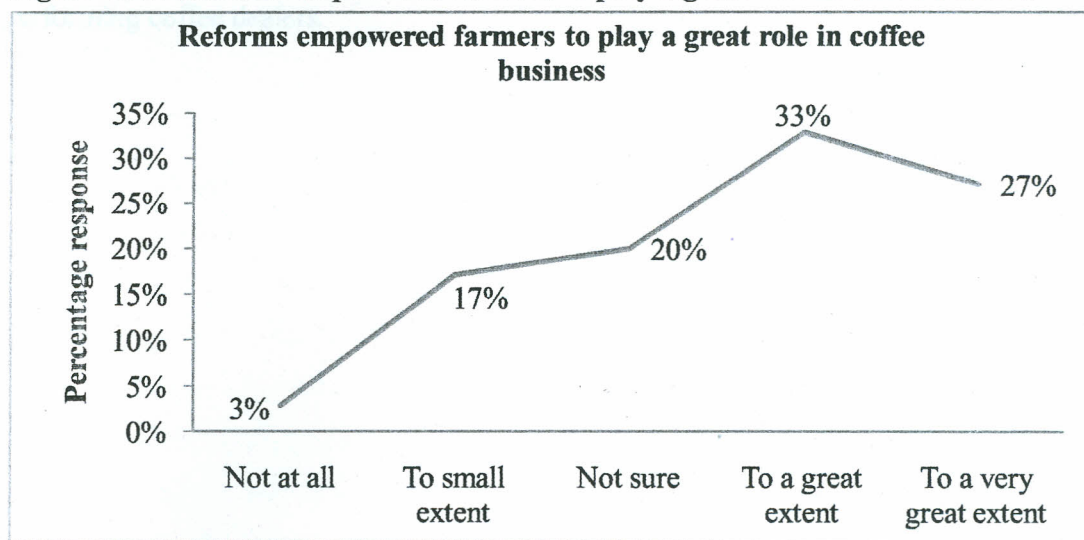
**Source: Researcher 2012**

From table 4.12 above, 29% of the respondents agreed to a great extent, 27% did not agree at all, 23% agreed to small extent, 14% agreed to a very great extent while 7% were not sure about whether performance contracting improves formulation of new policies. This indicates that performance contracting improves formulation of new policies

### 4.6.3 Reforms empowered farmers to play a great role in coffee business

The researcher sought to identify whether the reforms empowered farmers to play a greater role in the coffee business.

**Figure 4.14: Reforms empowered farmers to play a great role in coffee business**



Source: Researcher 2012

From the figure 4.14 above, 33% of the respondents agreed to a great extent, 27 to a very great extent, 20% were not sure, 17% agreed to a small extent while 3% did not agree at all that performance contracting brings about new reforms in coffee milling and marketing which has empowered the farmers to play a greater role in coffee business. This indicates that indeed the performance contracting brings about new reforms which have empowered the farmers to play a great role in coffee business.

### 4.6.4 Reduction in the number of nonperforming coffee dealers

The researcher sought to identify whether performance contracting leads to reduction in the number of non performing coffee dealers.

**Table 4.13: Reduction in number of nonperforming coffee dealers**

	Frequency	Percent
Not at all	19	27
To small extent	8	12
Not sure	21	30
To a great extent	12	17
To a very great extent	10	14
<b>Total</b>	<b>70</b>	<b>100.0</b>

Source: Researcher 2012

As indicated in the table 4.13, 30% of the respondents were not sure, 27% did not agree at all, 17% agreed to a great extent, 14% to a very great extent while 12% agreed to a small extent that performance contracting reduces the number of non-performing coffee dealers (Table 13). Thus, performance contracting does not determine the number of non performing coffee dealers.

## 4.1.2 Demography

### 4.1.2.1 Background information

The study subjects that participated in the survey were selected from the population of coffee growers in the region. The respondents were aged between 20 and 60 years with a mean age of 37.5 years. 70% were above the age of 30 years, 20% were below 30 years and 10% were below 20 years. 50% of the respondents were male and 50% were female. 20% had primary education, 30% had secondary education, 20% had tertiary education, 20% had postgraduate education and 10% had no education. In relation to the age of coffee trees, 20% of the respondents were below 10 years, 20% were between 10 and 15 years, 20% were between 15 and 20 years, 20% were between 20 and 25 years, 20% were between 25 and 30 years, 20% were between 30 and 35 years, 20% were between 35 and 40 years, 20% were between 40 and 45 years, 20% were between 45 and 50 years, 20% were between 50 and 55 years, 20% were between 55 and 60 years, 20% were between 60 and 65 years, 20% were between 65 and 70 years, 20% were between 70 and 75 years, 20% were between 75 and 80 years, 20% were between 80 and 85 years, 20% were between 85 and 90 years, 20% were between 90 and 95 years, 20% were between 95 and 100 years. Approximately 20% of the respondents had been in the coffee business for less than 5 years, 20% had between 5 and 10 years, 20% had between 10 and 15 years, 20% had between 15 and 20 years, 20% had between 20 and 25 years, 20% had between 25 and 30 years, 20% had between 30 and 35 years, 20% had between 35 and 40 years, 20% had between 40 and 45 years, 20% had between 45 and 50 years, 20% had between 50 and 55 years, 20% had between 55 and 60 years, 20% had between 60 and 65 years, 20% had between 65 and 70 years, 20% had between 70 and 75 years, 20% had between 75 and 80 years, 20% had between 80 and 85 years, 20% had between 85 and 90 years, 20% had between 90 and 95 years, 20% had between 95 and 100 years. Majority (69%) of the respondents had not worked in any other business apart from the one they held their coffee business, 20% had worked in other lines of the business other than the one they held their coffee business.

### 4.1.2.2 Inspection of industry players by the coffee board

Majority (80%) of the coffee industry players had been inspected by the coffee board, 20% of the industry players had not been inspected by the coffee board. Majority of the inspected coffee industry players were informed of the scope of the inspection, 20% were not informed of the scope of the inspection. In the past 10 months of inspections carried out, majority (50%) of the coffee industry players had been inspected, 20% had been inspected twice, and 20% had been inspected for the first

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter presents the summary of the study findings, conclusion, recommendations and suggestions for further research.

#### 5.2 Summary

##### 5.2.1 Background information

The results indicate that majority (79%) of the respondents were males while the female formed 21% of the respondents. In line with the age of the respondents, majority (40%) of the respondents were aged between 35-44 years, 37% were aged between 45 and 54 years, 17% were above the age of 55 years while only 6% were aged between 24-34 years. Most (50%) of the respondents had up to secondary school qualification, 26% had Bachelors degree, and 20% had primary education while only 4% had post graduate qualifications. In relation to the type of coffee businesses the respondents operate, majority (46%) of the respondents were small and medium growers, 28% were coffee cooperatives, 20% were coffee dealers, 3% were coffee millers/marketers while 3% were coffee warehousemen. Approximately (47%) of the respondents had between 6 to 10 years of experience, 21% had over 15 years, 20% were below 5 years while 11% of the respondents had between 11 and 15 years. In relation to the line of business they were involved in majority (69%) of the respondents had not involved themselves in other lines of coffee business apart from the one they held then while 31% had been involved in other lines of coffee business other than the one they held then.

##### 5.2.2 Inspection of industry players by the coffee board

Majority (80%) of the coffee industry players had been inspected by the board while only 20% of the industry players had not been inspected by the board. Most (59%) of the inspected coffee industry players were informed of the scope of inspection beforehand while 41% were not informed of the scope of the inspection beforehand. In line with the number of inspections carried out, majority (33%) of the coffee industry players had been inspected once, 26% had been inspected twice, and 21% had been inspected thrice while

20% had never been inspected. Most (54%) of the inspected coffee industry players were inspected from a planned or structured checklist while 46% were inspected on the basis of emerging issues during the visit.

Majority (93%) of the respondents were satisfied with the inspection with 7% not satisfied with the inspection. Most (50%) of the respondents were of the opinion that performance contracting had led to increase in the number of inspections, 31% were of contrary opinion indicating that the performance contract does not increase in the number of inspection while 19% had no idea whether the performance contracting increases the number of inspections. In line with defects detected during the inspection, majority (36%) of the respondents were of the opinion that there were few defects detected in the inspection, 34% were of contrary opinion indicating that there were no defects detected during the inspection while 30% had no idea whether there were few defects detected during the inspection. In relation to increasing compliance with the law, majority (47%) of the respondents disagreed with the statement that performance contracting leads to greater compliance with the law by the industry players, 33% were of the opinion the indeed performance contracting leads to greater compliance with the law while 20% had no idea of whether the performance contracting leads to a greater compliance with the law. Most (49%) of the respondents agrees, 34% disagreed while 17% of the respondents had no idea about the idea that as a result of performance contracting, there were few complaints by the farmers on services by value chain players

### **5.2.3 Creation of awareness**

Majority 53% of the respondents agreed, 38% disagreed while 19% had no opinion about the idea that performance contracting leads to more awareness creation programs. A majority (66%) of the respondents agreed, 21% had no opinion while 13% of the respondents disagreed with the statement that performance contracting leads to greater awareness among industry players. Most (70%) of the respondents are of the opinion that performance contracting leads to greater understanding by industry players of their rights and obligations, 16% had no opinion about the performance contracting increasing understanding of rights and obligations by industry players while only 14% of the

respondents were of the contrary opinion indicating that performance contracting does not increase understanding of rights and obligations by industry players. In relation to reducing time taken in problem saving, majority (46%) of the respondents disagreed, 30% agreed while 24% had no opinion on whether performance contracting reduces the time taken in problem resolution.

#### **5.2.4 Licensing of new players and renewal of old licenses**

Majority (62%) of the respondents agreed with the statement that with performance contracting, there is increased new license application, 27% had no opinion about whether there is increased application of new licenses while only 12% of the respondents disagreed with the statement that performance contracting increases new license application. In line with increased compliance with license renewal, majority (39%) of the respondents agreed that performance contracting leads to increased compliance with license renewal, 31% disagreed while 30% had no idea whether performance contracting increases compliance with license renewal. In relation to bringing about new guidelines which are more business friendly, majority (61%) of the respondents agreed that performance contracting brings about new guidelines in licensing which are more business friendly, 20% did not have an idea whether performance contracting brings about new guidelines in licensing which are more business friendly while 19% of the respondents disagreed with the statement that performance contracting brings about new guidelines in licensing and which are more business friendly. In line with reducing lead-time, most (56%) of the respondents agreed, 27% had no opinion while 17% disagreed with the statement that performance contracting leads to licensing lead time being reduced.

#### **5.2.5 Innovation(s) in the coffee industry**

In relation to quality of services given, majority (30%) of the respondents agreed to a small extent, 26% and 26% agreed to a great extent and very great respectively, 11% disagreed while 7% were not sure whether performance contracting improves quality of services given by the board. In line with formulation of new policies, most (29%) of the respondents agreed to a great extent, 27% did not agree at all, 23% agreed to small extent, 14% agreed to a very great extent while 7% were not sure about whether

performance contracting improves formulation of new policies. Majority (33%) of the respondents agreed to a great extent, 27 to a very great extent, 20% were not sure, 17% agreed to a small extent while 3% did not agree at all that performance contracting brings about new reforms in coffee milling and marketing which has empowered the farmers to play a greater role in coffee business. In relation to reduction of number of non-performing coffee dealers, majority (30%) of the respondents were not sure, 27% did not agree at all, 17% agreed to a great extent, 14% to a very great extent while 12% agreed to a small extent that performance contracting reduces the number of non-performing coffee dealers.

### **5.3 Conclusion**

The first objective of this study was to establish the effect of the performance contracting on inspections carried out on the industry players by the Board. Based on this study, it was concluded that performance contracting is an important aspect in line with the performance of the parastatals since it leads to an increase in the number of inspections, there were also few defects detected in the inspection as well as few complaints by the farmers on services by value chain players. However, performance contracting does not lead to greater compliance with the law. This implies that performance contracting should be encouraged in line with inspection of industry players since it improves on the performance of all the industry players.

The second objective of this study was to investigate the effect of performance contracting on the creation of awareness among players and other industry stakeholder. From the results, it was concluded that performance contracting is necessary in any organization since there more awareness creation programs, there is also a greater level of awareness among industry players on industry issues, there is increased understanding by industry players of their rights and obligations. However, performance contracting does not reduce time taken in problem resolution. This implies that there is need for various organizations to embrace performance contracting since it creates more awareness.

The third objective of the study was to establish the effect of performance contracting on license of new players and retaining old players. From the research findings, it can be concluded that there is increase in new license applications, there is increased compliance with license renewal and there are new guidelines in licensing which are more business friendly. This implies that performance contracting should be encouraged since it improves the licensing of new players in the coffee business and renewal of old licenses.

The fourth objective of the study was to establish the effects of performance contracting on innovation(s) in the coffee industry. From the research findings, it can be concluded that there is improvement in the quality of services given by the board to the industry, there is improvement in the formulation of new policies by the board to regulate and grow the coffee sector, new reforms in coffee milling and marketing has empowered the farmers to play a greater role in coffee business and there is a reduction in the number of non-performing coffee dealers.

#### **5.4 Recommendations**

After successful completion of the study “The effect of Performance Contracting on Service delivery of Kenya Parastatals” the following recommendations were made.

Despite the apparent improvement on the inspections carried out on the industry players for compliance to the set operational procedures, there is an obvious disconnect between the inspections and the actual compliance with the law. It is therefore important that the organization follows up on the findings of the inspection report to correct any non compliance to avoid making the inspection exercise a mere ritual

The inter-industry and intra-industry communication will need to be addressed. This will bring greater understanding among the different players within the same level and at different levels of the value chain. When every player understands their role and position and that of others in the value chain, there will be harmony and synergy in the industry.

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Government parastatal in the agricultural sector should emphasize on research and development geared towards new innovations on services delivery that will make the sector more attractive to the youth and women for succession and gender equity.

### 5.5 Suggestions for further research

Since the study adopted a case study design, it might be possible that the findings may not reflect the effect of performance contracting of other similar organizations on their service delivery to their clients. It is therefore important that further study be carried out on other regulatory organizations in the agricultural sector to establish whether similar scenarios exist. Further study should also be carried out to establish the efficiency and the effectiveness of performance contracting approach to service delivery and what external factors affect service delivery of government institutions which were not covered in this study.

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## APPENDICES

### APPENDIX 1: LETTER OF INTRODUCTION

Bernard Njagi Gichovi  
P.O Box 75218- 00200  
Nairobi.

Dear Respondents,

#### RE: RESEARCH QUESTIONNAIRE

I am a postgraduate student in the Masters of Business Administration program of Kenyatta University. As a part of my course requirement I am currently writing a research project in a relevant field.

Performance management system is a continuous tool that an organization puts in place aiming at setting targets and delivering on those targets for better performance of an organization. The purpose of this research is to collect information that will enable the Coffee Board of Kenya evaluate the effectiveness of the performance management practice in place on its overall performance as an organization. This will lead to improved organizational performance and especially at this time of rapidly changing and competitive business environment.

Attached here is a copy of the questionnaire that I kindly request you to take some time and complete. The information you will provide in the questionnaire is for academic purpose and the results will be availed to you on request.

I thank you in advance for your co-operation and active participation to this academic effort.

Thank you.

Bernard Njagi Gichovi

## APPENDIX II: RESEARCH QUESTIONNAIRE FOR ALL RESPONDENTS

(Please tick where appropriate)

### SECTION A: BACKGROUND INFORMATION

1) Gender                      Male                            Female     

2) Age

25-35 years                     

35 - 45 years                     

45 - 55 years                     

Above 55                             

3) What is your highest level of academic/professional qualification?

Masters and above            bachelor degree            O- level     

K.C.P.E. Below O-level       Any other            please specify.....

4) Type of coffee business

Coffee cooperative                      (a)     

Small and medium grower      (b)     

Coffee milling/marketing      (c)     

Coffee dealer                              (d)     

Coffee warehouseman              (e)     

5) How long have you been in coffee business?

0 - 5 years      (a)     

6 - 10 years      (b)     

10 - 15 years      (c)     

Over 15 years      (d)     

6) Have you been involved in any other line of coffee business other than the current one?

Yes                            No     

### SECTION B: COFFEE BOARD'S AREAS OF SERVICE DELIVERY

#### 1. Inspection of industry players

a) Have you ever been inspected by an officer(s) of the Coffee Board of Kenya?

Yes                            No     

b) Were you informed of the scope of inspection in advance?

Yes                            No     

c) How many times are you inspected per year?

Once                             

Twice                             

Thrice                             

Any other

d) Please state on what basis the inspection was done

- a) From a planned/structured check list
- b) Emerging issues during the visit
- d) Any other

e) Were you satisfied with the way you were inspected?

Yes  No

f) If NO please give reasons for your answer.

.....

g) Indicate the extent to which you agree or disagree with the following statements in regard to the effect of performance contracting on improvement in the following:-

PARAMETER	<i>Strongly Agree</i>	<i>Moderately Agree</i>	<i>No Opinion</i>	<i>Moderately Disagree</i>	<i>Strongly Disagree</i>
There is increase in the number of inspections					
There are fewer defects detected in the inspections					
There is greater compliance with the law by industry players					
There are fewer complaints by stakeholders on services by value chain players					

**2) Creation of awareness**

PARAMETER	<i>Strongly Agree</i>	<i>Moderately Agree</i>	<i>No Opinion</i>	<i>Moderately Disagree</i>	<i>Strongly Disagree</i>
There are more awareness creation programs					
There is a greater level of awareness among industry players on industry issues					
There is increased understanding by Industry players of their rights and obligations					
There is less time taken in problem resolution					

### 3) Licensing of new players and renewal of old licenses

Please indicate how strongly you agree or disagree with the following statements

<i>PARAMETER</i>	<i>Strongly Agree</i>	<i>Moderately Agree</i>	<i>No Opinion</i>	<i>Moderately Disagree</i>	<i>Strongly Disagree</i>
There is increase in new license applications					
There is increased compliance with license conditions					
The licensing requirements are more business friendly					
Time taken to process an application has reduced					

### 4) Innovation(s) in the industry

Please indicate how strongly you agree or disagree with the following statements

<i>PARAMETER</i>	<i>To a very great extent</i>	<i>To a great extent</i>	<i>Not Sure</i>	<i>To a small extent</i>	<i>Not at all</i>
There is improvement in the quality of services given by the Board to the industry.					
There is improvement in the formulation of new policies by the Board to regulate and grow the coffee sector.					
New reforms in coffee milling and marketing has empowered the farmers to play a greater role in coffee business					
There is a reduction in the number of non-performing license holders					

**THANK YOU FOR YOUR TIME**

### APPENDIX III: BUDGET PLAN

<i>S/No.</i>	<i>Item description</i>	<i>Amount Ksh.</i>
1)	<b>Proposal writing</b>	
	Consultative meetings with supervisors	3,000.00
	Stationery, computer, photocopy, printing and biding	2,000.00
	<b>Subtotal</b>	<b>5,000.</b>
2)	Research instruments, questionnaire typing and other Materials	1,500.00.
	<b>Subtotal</b>	<b>1,500.00</b>
2)	Booking, telephone services (phone cards)	1000.00
	<b>Subtotal</b>	<b>1,500.00</b>
4)	Data collection, research and assistant phone calls	30,000.00
	<b>Subtotal</b>	<b>30,000.00</b>
5)	Data management and analysis (use of SPSS)	5,000
	<b>Subtotal</b>	<b>5,000</b>
6)	Project preparation, computer services, stationery, Photocopy and biding	5,000.00
	<b>Subtotal</b>	<b>5,000.00</b>
7)	Transport/Miscellaneous	5,000.00.
	<b>Subtotal</b>	<b>5,000.00</b>
	<b>Grand Total</b>	<b>52,000.00</b>

**APPENDIX IV: WORK PLAN**

YEAR 2012	JANUARY	FEBRUARY	MARCH/ APRIL
Proposal Writing			
Proposal Defense			
Data Collection			
Data Analysis			
Report Writing			
Submission of Final Report			