EFFECT OF PERFORMANCE CONTRACTING STRATEGY ON SERVICE QUALITY IN PUBLIC UNITS IN NAKURU COUNTY

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DECLARATION AND RECOMMENTATION

Declaration

This research project is my original work and has not been submitted for an award of a degree or diploma in this or other University

Signed…………………………………………...   Date………………………

Gladys A. Pkemei
CM11/0553/09

Recommendation

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

Signed………………………………………….   Date………………………

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DEDICATION

I dedicate this project to my late dad Zablon Anunda, my children Tina, Brenda and Jude, and also my sister Martha for their support, encouragement and prayers throughout my studies. Thank you all for your love. God richly bless you.

ACKNOWLEDGEMENT

I thank the almighty God for granting me good health and strength to pursue my studies as I take the opportunity to acknowledge the contribution of certain people who in one way or another contributed greatly to my education at Egerton University. I am greatly indebted to my supervisor Mr. Henry Kombo for his steady guidance and technical support throughout the study period. I am also grateful to the staff of the Department of Business Management and Faculty of Commerce at the university for the resources and moral support they extended to me during my studies. I also thank my colleagues and classmates for their invaluable support. Special thanks also to my entire family and especially my brother Dr. Mosomi and my sister Martha for their ungrudging assistance whenever I was in need. My sincere appreciation to my friend Eric who has consistently urged me forward even when the road ahead was very tough. For all the members public units in Nakuru County who opened their doors when I was collecting data, thank you. Finally, for those who have supported me throughout my entire education in one way or the other but I have not mentioned you by name, know that your efforts and encouragement was felt well appreciated. *Asanteni sana* and God bless you all.

ABSTRACT

Performance contracting is a management strategy which involves management control systems geared towards improving service quality. It is also a contractual agreement to execute a service according to agreed terms, within an established time period and with stipulated use of resource and performance standards. In the past seven years organizations in Kenya have been adopting performance contracting to enhance service quality. The purpose of this study was to examine the effect of performance contracting strategy on quality of services in Public Units in Nakuru County. The target population for the study was 43 Public Units in Nakuru County including; the devolved functions, the non-devolved functions, Sub-Counties and Parastatals. A census study of the 43 Public Units was conducted. The study used structured questionnaire as the main instrument of data collection. Descriptive statistics specially mean, standard and deviation were used to analyze the data. The relationship between elements of performance contracting strategy and quality of service were tested using Pearson's correlation while the effect of performance contracting on service quality was tested using multiple regression analysis. The study established a strong significant relationship between performance contracting strategy and service quality. The study recommended that the management of the public units should conduct regular reviews of employee performance under the performance contracting paradigm to ensure that quality services were being delivered. Annual reviews could be less effective when trying to ensure better performance and improved standards of service delivery. In addition, it was recommended that a study on the effect of employees' job satisfaction and service quality delivery to the Public Units County Governments in Kenya should be conducted.

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LIST OF ACRONYMS AND ABBREVIATIONS

AAPAM	African association for public administration and management
CEC	Chief Executive Committee
CO	Chief Officer
CS	Cabinet Secretary
CS	County Secretary
GoK	Government of Kenya
HoD	Head of Department
MDG	Millennium Development Goals
MOU	Memorandum of Understanding
MTEF	Medium Term Expenditure Framework
NDP	National Development Party
PC	Performance Contracting
ROM	Results Oriented Management
SERVQUAL	Service Quality
SMART	Specific Measurable Attainable Realistic and Time bound

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Performance contracting is a management strategy which involves Management Control Systems geared towards set performance and is also a contractual agreement to execute a service according to agreed upon terms, within an established time period, and with a stipulated use of resources and performance standards. Performance contracting has been part of the broader Public Sector Reforms aimed at improving efficiency and effectiveness in the management of the public service (An & Noh, 2009). The Public Sector borrowed the concept from the private sector as a strategy of enhancing service delivery.

A performance contract is a freely negotiated performance agreement between either Government agencies or Private Sector, acting as the owner of a Government Agency or Private Sector and the management. The contract clearly specifies the intentions, obligations and responsibilities of the two contracting parties. A performance contract constitutes a range of management instruments used to define responsibilities and expectations between parties to achieve mutually agreed results. It is a useful tool for articulating clearer definitions of objectives and supporting innovative management, monitoring and control methods and at the same time imparting managerial and operational autonomy to public service managers (Culiberg, 2010).

Employees working for both the Public and Private Sector involved in performance contracting contractual agreement are very important resource without which the sectors cannot achieve their objectives. The management view performance contracting as a strategy that ensures high job performance leading to improved service delivery to their customers/clients while on the other hand, the employees view it as a tool that should come with components that achieve their job satisfaction. The gap between the management expectations and employees service quality shows the effectiveness of performance contracting strategy that an organization adopts (Away, 2004).

1.1.1 Performance Contracting Strategy

Performance contracting is a management tool for ensuring accountability for results by public officials, since it measures the extent to which they achieve targeted results (Greer et al., 1999). Performance contracts originated from the perceptions that the performance of the public sector has been consistently falling below the expectations of the public. The decline is associated with excessive controls, multiplicity of principles, frequent political interference, poor management and outright mismanagement (RBM guide, 2005).

However with the implementation of performance contracting in the last five years (since, 2004), there is need to establish how the implementation has impacted on service delivery. Implementation of the process of performance contracting began in 2004 in state corporations. Performance contracting is supposed to enhance service quality for the employees with the hope that their satisfaction would lead to improved job performance. The improved job performance should in turn lead to tangible and improved financial performance. The Economic recovery strategy for wealth and employment creation (2003-2007) outlines the Government's commitment to improve performance, corporate Governance and management in the public service through the introduction of performance contracts. The policy paper opens with a bold statement that "the public sector has become a bottleneck to the overall development of Kenya.

In the Kenyan context a performance contract is a written agreement between government and a state agency (County Governments, State Corporation or National Government Ministry) delivering services to the public, wherein quantifiable targets are explicitly specified for a period of one financial year (July to June) and performance measured against agreed targets. The common issues that were being addressed include: improve performance to deliver quality and timely services to the citizen, improve productivity in order to maximize shareholders wealth, reduce or eliminate reliance on the exchequer, instill a sense of accountability and transparency in service delivery and the utilization of resources and give autonomy to government agencies without being subjected to the bureaucracies and unnecessary procedures.

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

Measures matrix of performance in devolved government system usually embrace the following fundamental issues; money usually measured as value for the money employed, output/input relationships of customers satisfaction, customer focus, innovations and the key resources of employees. The specific measures include; Cost of quality: measured as budgeted versus actual, variances: measured as standard absorbed cost versus actual expenses, period expenses: measured as budgeted versus actual expenses, safety: measured on some common scale such as number of hours without an accident, profit contribution: measured in dollars or some common scale, inventory turnover: measured as actual versus budgeted turnover (Domberger, 1998).

1.1.2 Public Units

This study will focus on the following public units in Nakuru county; devolved unit, non-devolved unit and parastatals. Devolution is a kind of decentralization that changes communications in the system. It means the effect of system performance by transferring responsibility and authority to selected subject (Lodenstein & Dao, 2011). Concept of devolution: transferring authorities and responsibilities to local departments of governmental organization by independent income and authority by preservation of management control. It is defined as reassignment of personnel responsibilities to linear managers (Renwick, 2000). Devolution acts as an effective tool for increase of efficacy of public sector. Although there are improper consequences like horizontal in balance among local government and endangering macroeconomic stability. Thus, among the reasons mentioned for justification of decentralization is the ever growing trend that these policies could help in obtaining goals like increase in welfare, efficacy, reduction of costs, motivation of staff, preparation of future managers, control and economic growth (Budhwar & Sparrow 1997).

Devolution is the main solution for organization participation, helping and involvement and responsibility and in case of knowledge it leads to value addition. Research shows that more than 70 percent of activities managers do can be delegated to subordinates. Some scholars believe that the managers should delegate the affairs to subordinates for them obtain knowledge and question the conditions. In devolution the individuals should have required authorities and are responsible for their acts (Niliahmadabadi, 2009). There is a significant difference between devolution theatrical concept and what happens in reality. In scholars opinion the linear managers do not have the final authority in decision making (Cascon-Pereira & *et al,* 2006). They should be given decision making power. The results show that authority submission increase organizational performance (Azmi, 2010).

Devolution describes the transfer of authority from a senior level of government to a junior level, and can be viewed as both a theoretical concept and as an administrative process

(Dacks, 1990). Viewed theoretically, devolution can be seen as an instance of decentralization which can be usefully related to literature on political development. Decentralization (devolution) has a spatial aspect in that authority and responsibility are moved to organizations and jurisdictions in different physical locations, from the center to the local level. And it has an institutional aspect in that these transfers involve reallocating roles and functions both within government, from one central government agency to lower-level jurisdictions and agencies; and between government and civil society, through service coproduction and partnerships as well as joint policymaking and feedback mechanisms (Brinkerhoff, Brinkerhoff & McNulty, 2007).

According to Gregersen et al (2004), devolution is one form of administrative decentralization which transfers specific decision-making powers from one level of government to another which could be from lower level to higher level of government, in the case of federations, or government transfers decision-making powers to entities of the civil society. Regional or provincial governments, for example, become semi autonomous and administer forest resources according to their own priorities and within clear geographical boundaries under their control. Most political decentralizations are associated with devolution.

The characteristics of the devolved functions in the County Government include; providing health services to the citizens in the County Government including; Public health, disease control, treatment of different types of diseases in public health facilities, educating the citizens on preventive measures of different diseases. Ministry of Water has a sole mandate of providing clean and safe water for domestic use by the citizens living in the Nakuru County. This includes collaborating with other Government Institutions to get water from the catchment areas, transmission of the water and final distribution to the citizens. Ministry of Agriculture has a sole mandate of advising the famers in the County on the whole faming process which include; ecological mapping of farming practices, extension advice on land preparation, planting, weeding and finally harvesting. The ministry also links farmers to the markets where they can sell their farm produce.

The Ministry of lands, physical planning and housing was also devolved to manage the built environment within the county. This includes; approval of building plans, estate development, physical planning and road constructions within the County. The other Unit is the Non-Devolved Unit which was left solely to the Central Government. The Non-Devolved units include; Education, Internal security, Kenya Prisons, Immigration, National Treasury, Mining and Geology, Lands and Physical Planning and Social Welfare. These ministries offer services to the citizens living in the County with operations governed by the Central Government.

The State Corporation Act Cap 446 (1987) defines a parastatal as a state corporation (SC) or a corporate body established by or under an Act of parliament; it is also a corporate body established by order of the president to perform the functions specified in that order; it also includes a bank or a financial institution licensed under the banking Act or other company incorporated under the company Act whose shares or majority of whose shares are owned by the government of Kenya or by another state corporation (Government of Kenya, 1987; Wamalwa, 2003).

The government of Kenya forms parastatals to meet both commercial and social goals. They exist for various reasons including: to accelerate economic social development, to redress regional economic imbalance, increase Kenyan citizen's participation in the economy and to promote foreign direct investment through joint ventures (GoK- Sessional Paper No. 4, 2005). The economic motive arose out of the government desire to promote or enhance private African enterprises (Wamalwa, 2003), since after independence, most private enterprises and entrepreneurships were European owned while a bulk of the locals were lacking in undertaking such business ventures. Establishing parastatals was also viewed as a means of generating other non-tax revenue for the government in order to support the country's agenda. On the other hand, despite the high level of commercial and economic intents, parastatals were established with public policy motive in the conduct of their operations. They are required to serve as a stabilizer of highly profit oriented capitalists whose goal is profit maximization. They therefore stand as a bridge in providing goods and services to the general public at a much lower affordable prices compared to the private firm.

1.1.4 Quality of Service Delivery

Countries in both the developed and developing world are embracing New Performance contracting (NPM) initiatives in order to improve public sector performance and at the same time contain expenditure growth (Curristine, Lontt & Jourmard, 2006). The delivery of public services is a tangible indicator of government effectiveness. The quality of public services is often a dominant determinant of citizens' perceptions of government (Katelaar, 2007).

Effective service delivery is touted as one of the key strategies for the reduction of poverty and associated problems. In Kenya, the delivery of public services has not been entirely successful or effective. This is manifested by the poor road network, incessant water unavailability, inadequate health facilities and personnel as well as falling education standards (World Vision, 2011). Performance contracting adopts many approaches in an endeavor to improve public service delivery. Among the approaches are performance contracting, rapid results initiative and results based management (Obong'o, 2009).

The policy decision to introduce performance contracts in the management of public resources was Strategy for Wealth and Employment Creation (2003-2007). Further, Kenya's Vision 2030 has recognized performance contracting among the key strategies to strengthen public administration and service delivery. The strategies will, in this regard focus on deepening the use of citizen service delivery charters as accountability tools and entrenching performance as a culture in the public service (GOK, 2012). According to Gerhard et al (2007) some of the expected outcomes of the performance contracting include improved efficiency in service delivery to the public by ensuring that holders of public office are held accountable for results, improvement in performance and efficiency in resource utilization and ensuring that public resources are focused on attainment of the key national priorities.

The Panel of Experts review of performance contracting in the public service and the former local authorities found out that there was involvement and empowerment of the public to demand accountability from all holders of public office. They noted that among the innovations that had given rise to that was the introduction of the Citizens' Service Delivery Charter." The Charter is a statement prepared by a public institution which outlines the nature, quality and quantity of service that citizens should expect from the institution (POE, 2010).The former Local Authorities were governed under Cap.265, of the Laws of Kenya. The authority composed of multiple and competing interests. Once the Local Authority had been created, its mission and objectives were still defined under Cap. 265 Laws of Kenya on which it is dependent for its authority (Messah, 2011). Despite the fact that local authorities are created to ensure efficient and effective delivery of essential services, majority have been mismanaged. However, New Performance contracting strategies have resulted to gradual improvement in service delivery (Messah, 2011).

Sub-Counties which are the former Local authorities should be responsive to the demands and requirements of their clients and customers, while ensuring effectiveness in product and service delivery. Key objectives are expressed in terms of performance expectations linked to budget, service, outcomes and management of performance targets that are set and performance measures that are to be used to measure performance.The importance of service charters in service delivery is echoed by Menon, Mutero and Macharia (2008) whose study revealed that the government of Kenya in a bid to make local authorities to be accountable and improve service delivery had introduced service charters and performance contracts.

The Government had also imposed conditions of good governance and financial management as part of its annual fiscal transfers to the big towns. Menon et al., (2008) however point out that despite that, a recent survey had found out that Kenyan cities, Nakuru included were not realizing their full potential in delivering efficient services. The study also established that only 20% of the respondents in Nakuru believed they were getting good services from the former Municipal Council. Obong'o (2009) looks at performance contracting as a strategy aimed at transforming the public service delivery system and making it a net contributor to the growth of the economy. The importance of Sub-Counties in development cannot be overemphasized. Naitore (2008) argues that many services such as education, health and social services are delivered at the local level and affect the poor and therefore have direct impact on the performance towards achieving the Millennium Development Goals.

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

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

1.2 Statement of the Problem

The Performance Contracting strategy is a critical instrument used by the Government of Kenya to realize its targets and cascaded downwards from the National Government to County Governments. It promotes transparency and accountability in the management of public resources and utilization of the same for mutual benefit of the people of Kenya. The use of performance contracting is also useful in promoting good corporate governance and also offers better and efficient project management and implementation. It also showcases areas of weaknesses which require attention in the following years' financial plans and arrangements. On its own, performance contracting cannot achieve its desired objectives if it is not aligned to the expected service quality by either the Public or Private Sector service providers.

Since the introduction of devolved functions the following ministries were devolved; agriculture, health, trade, tourism, co-operative and industrialization, lands and physical planning, environment, water, natural resources, works and infrastructure. On the other hand, the following functions remained in the National Government; Interior and co-ordination of National Government, Devolution and Planning, National Treasury, Education, Transport and Communication, Energy and Petroleum and Mining. Both the devolved and non-devolved functions operate under the same performance contracting strategy of the Government of the Republic of Kenya. It is important to note that both the devolved functions and the non-devolved functions operate under different environments dictated by different prevailing organizational cultures. Past studies have however not examined the effect of performance contracting on the management of service quality.

The studies that have been carried out locally on performance contracting have focused on implementation (Ogoye, 2002; Choke, 2006 & Langat, 2006) while one study has tackled the general Impact of performance contracting in state corporations. Korir (2006) and Berich (2011) studied the impact of performance contracting on performance of state corporations in the energy sector in Kenya. Many studies already conducted on performance contracting have concentrated more on employees issues like motivation and performance. Despite the availability of extensive existing literature on performance contracting there is no specific documented information on the effect of performance contracting strategy on service quality provided by the two levels of government hence the need for this study to be carried out. This study therefore sought to examine the effect of performance contracting on management of service quality in the public units in Nakuru County.

1.3 Objectives of the Study

The overall objective of the study was to analyze the effect of performance contracting on the quality of service delivery in public units in Nakuru County.

i. To determine the effect of performance target setting on the quality of service delivery in Nakuru County.
ii. To find out the effect of performance monitoring on the quality of service delivery in Nakuru County.
iii. To establish the effect of performance evaluation on the quality of service delivery in Nakuru County.
iv. To establish the effect of performance contractual incentives on the quality of service delivery in Nakuru County.

1.4 Hypotheses of the Study

$H_0$1: Performance target setting does not significantly affect quality of service delivery.

$H_0$2: Performance monitoring does not significantly affect quality of service delivery.

$H_0$3: Performance evaluation does not significantly affect quality of service delivery.

$H_0$4: Contractual incentives do not positively affect significantly of service delivery.

$H_0$5: The combined components of performance contracting strategy do not significantly affect quality of service delivery.

1.5 Significance of the Study

It is hoped that the findings from this study will attract a number of interests since devolution of government functions and employees service quality cut across many stakeholders. First, to the management of Nakuru County Government, the findings of this study are meant to enlighten them on the various aspects of performance contracting and their effects on the quality of their services. In particular, the outcome of the study shows areas in performance contracting that need to be prioritized in order to improve their service delivery. Second, to the management practioners in the county governments the findings of this study highlight several important aspects of performance contracting that needs to be addressed so as to enable them deliver quality services. Being a newly instituted public body at a level lower than the national government, the public expectations of service delivery both in terms of quality and speed in the county government are high. Third, the findings are meant to be used in conjunction with findings from other similar studies to inform the Ministry of Devolution and other line ministries on policy decisions on performance contracts and their implementations strategies in order to enhance service quality among the employees. Finally, the findings add to the growing fund of knowledge in the areas of public service delivery, performance contracting and total quality management. In this respect, several scholars may benefit from the findings both from a theoretical and empirical perspective. Consequently, suggestions have also been made in the study for further research for scholars who are interested in conducting research in this area in future.

1.6 Scope and Limitations of the Study

1.6.1 Scope of the Study

The study covered the effects of the performance contracting strategy on the quality of service delivery in Nakuru County. It looked at both the devolved and the non-devolved functions of government in Nakuru County. The study was conducted between January, 2015 and June, 2015. It utilized questionnaires in the collection of data.

1.6.2 Limitation of the Study

The study was limited to the effect of performance contracting on the quality of service delivery in Nakuru County. The study collected information from the managements in both the devolved and non-devolved functions of Government in Nakuru County who have signed performance contracts.

1.7 Assumptions of the Study

This study assumed that the respondents understood performance contracting and service quality; the employees received adequate induction and training on performance contracting; that the respondents gave the required information intended to achieve the objectives of the study accurately and without fear of victimization.

1.8 Definition of Terms

County Government : An administrative body which replaced the provincial administrative units in the old constitution

Devolution : is the statutory granting of powers from the central government of a sovereign state to government at a sub-national level, such as a region.

Local Authority : This is a devolved government in old Kenya Constitution which was an administrative body for a small geographic area, such as a city, town, county

Municipality :This was a devolved function in the former Kenya Constitutiondispensation in the status of a city, town, or other district possessing corporate existence and usually its own local government.

Performance Contracting Strategy : Performance contracting is a contract signed between unit managers and the Government of Kenya focusing on outcomes, while using performance standards, metrics, and incentives to motivate superior results.

Performance Evaluation : This is a onetime review of performance and reporting to the relevant stakeholders

Performance Monitoring : This is continuous review on performance and reporting to the relevant stakeholders

Performance Targeting : This is setting goals and objectives of what is expected out of the employee in terms of his or her performance.

Public Units : These are government ministries in both the devolved and non-devolved and also government parastatal.

Service Quality : This the extent to which either citizens are satisfied by the services provided by public units.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter discuses literature on the subject of performance contracting, it also discusses literature linking performance contracting strategies with service quality.

2.2 Performance Contracting Strategy

Kumar (1994) defines performance contract as a Memorandum of understanding (MOU). MOU is rooted in an evaluation system, which not only looks at performance comprehensively but also ensures forces improvement of performance managements and industries by making the autonomy and accountability aspect clearer and more transparent. Performance contracting is defined as a range of management instruments used to define responsibility and expectations between parties to achieve mutually agree results. While Smith (1999) argues that a common definition of performance contracting can be found, there are a considerable variety of uses and forms for quasi-contractual arrangements. The objective of performance contracting is the control and enhancement of employees' performance and thus the performance of the whole institution.

Many countries have had success in improving the performance of their own public sector by designing performance contracts after carefully examining and adapting to their particular needs the lessons of the vast international experience with regards to Performance contracts (PBMSIG, 2005). The success of Performance Contracts in such diverse countries as France, Pakistan, South Korea, Malaysia, India, and Kenya has sparked a great deal of interest in this policy around the world. A large number of governments and international organizations are currently implementing policies using this method to improve the performance of public enterprises in their countries. Performance Contracts represent a state-of-the-art tool for improving public sector performance. They are now considered an essential tool for enhancing good governance and accountability for results in the public sector.

Performance contracts originated from the perception that the performance of the public sector has been consistently falling below the expectations of the Public. Performance contracting is part of broader Public sector reforms aimed at improving efficiency and effectiveness in the management of Public service. The problems that have inhibited the performance of government agencies are largely common and have been identified as excessive controls, multiplicity of principles, frequent political interference, poor management and outright mismanagement (RBM Guide, 2005). Performance contracting system originated in France in the late 1960s. It was later developed with great deal of elaboration in Pakistan and Korea and thereafter introduced in India (OECD, 1997). It has been adopted in developing countries in Africa, including Nigeria, Gambia, Ghana and now Kenya.

The definition of Performance contracts itself has been a subject of considerable debate among the scholars and human resource practitioners. Performance contracting is a branch of management science referred to as Management Control Systems. Kumar (1994) defines performance contract as a Memorandum of Understanding (MOU). MOU is rooted in an evaluation system, which not only looks at performance comprehensively but also ensures forces improvement of performance managements and industries by making the autonomy and accountability aspect clearer and more transparent. Performance measures can be grouped into two basic types: those that relate to results (outputs or outcomes such as competitiveness or financial performance) and those that focus on the determinants of the results (inputs such as quality, flexibility, resource utilization, and innovation). This suggests that performance measurement frameworks can be built around the concepts of results and determinants.

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

2.2.1 The Performance Contracting Process

The notion of performance is central in all modernization processes that have been conducted during the last twenty years. In a study about Swiss public servants' perceptions of performance in a fast changing environment, Emery (2008) notes that performance is the buzz word in all modernization reforms. Emery's study found out that there was a dominant influence of the private industrial world over that of the civic world. The study concluded that a highly capable public sector organization focused on efficient quality services, provided for the citizens and outcomes, needed motivated employees to achieve those ambitious objectives. And that, the perceptions of civil servants about a highly capable public sector, must be set against actual standards in order to achieve a shared vision of the main dimensions and criteria of performance.

A study about public sector performance reporting, as a new public management and contingency theory insights carried out by Yoshimi (2002) considered the impact of public sector performance reporting as anew public management technique in Japan. The study concluded that in Japan the key issue about performance reporting was accountability. Performance reporting was part of the earlier instituted performance reforms in the public sector. The World Bank (2008) reported that its support for public sector reforms in developing countries had helped to advance performance especially in public financial management and tax administration. The report noted that public service delivery and accountability had improved about two thirds of the countries that borrowed for public service management. The countries included Ecuador, Georgia, Tanzania, Turkey, and Vietnam.

Stilborn (1998) in a research report about the federal public renewal in Canada observed that prior to the introduction of public service reforms in Canada, public servants were increasingly portrayed by the media and politicians as phlegmatic, overpaid and unresponsive. That, insufficient international attention to emerging morale and skills development issues combined with strategic promotions and external recruitment to exacerbate the already frustrated civil servant. The report concluded that although the reforms had restored public servants' morale somehow, clarity on how the principle of accountability was going to be applied was still needed. That was because the association of performance indicators with monitoring and reporting progress may have implied that performance was only going to focus on implementation plans rather than achievement of internal results.

A research report for the Organization for Economic Cooperation and Development (OECD) by Curristine, Lontt and Jourmard (2006) pointed out that, governments in OECD countries were under pressure to improve public sector performance and at the same time contain expenditure growth. The study observed that there was no blue print for enhancing public sector efficiency. The study nevertheless concluded that factors that may improve public sector performance included; decentralization of political power and spending responsibility to sub-national governments, appropriate human resource management practices and based on evidence, increasing the scale of operations in the education and health sectors.

The World Bank (2008) reported that its support for public sector reform in developing countries had helped to advance performance especially in public financial management and tax administration. The report noted that public service delivery and accountability had improved about two thirds of the countries that borrowed for public service management. The countries included Ecuador, Georgia, Tanzania, Turkey, and Vietnam. The World Bank (2008) however identified three factors that needed to be adopted by countries that sought to bring about public sector reforms. It was argued that the reforms should be realized and be politically and institutionally feasible. There was also need to recognize that enhancing technology was not enough and that the most crucial and difficult part is to change behavior and perceptions of public. The report, however, identified three factors that needed to be adopted by countries that sought to bring about public sector reforms. That, the reforms should be realized and be politically and institutionally feasible. There was also need to recognize that enhancing technology was not enough and that the most crucial and difficult part is to change behavior of employees, and to deal with the basics first, for example instituting unique identification numbers in case of reforms involving tax administration.

Although these studies indicate a marked improvement in performance in various countries' public sectors, there are others where there has not been equal success. Shirley (1998) in a study in a study examining the state of performance contracts in public sector organizations that performance contracts had not always worked for state owned enterprises. Most of the contracts had failed to improve performance. Shirley also observed that performance contracts are negotiated written agreements between governments and the managers of state enterprises. They specify targets that management pledges to achieve in a given time frame and define how performance will be measured at the end of a specified period.

The following steps according to Dye (1992) indicate ways of developing a performance measurement strategy: Clearly define the firm's mission statement, identify the firm's strategic objectives using the mission statement as a guide (profitability, market share, quality, cost, flexibility, dependability, and innovation), develop an understanding of each functional area's role in achieving the various strategic objectives, for each functional area, develop global performance measures capable of defining the firm's overall competitive position to top management, communicate strategic objectives and performance goals to lower levels in the organization and establish more specific performance criteria at each level (Dye, 1992). Periodically reevaluate the appropriateness of the established performance measurement system in view of the current competitive environment. Finally, it is important that the performance measurement systems used by the management be continually reviewed and revised as the environment and economy changes. Failure to make the necessary modifications can inhibit the ability of the organization to be an effective and efficient global competitor.

Mitchell and Switzer (2007) conducted a study that looked at the success of efforts of measuring effectiveness and performance. They found out that performance evaluation helps an organization to meet minimum requirements and receive credit for putting in place a program that is logically designed by using sound practices. Their study also found out that performance brings into view the totality of the program and determines if it is delivering real business value. That, the evaluation helps an organization to dig into issues that matter most and helps to identify areas to focus for improvement and resource allocation. The study however recommended that, for performance assessment to succeed, indicators should be defined so that they can be linked with targets to find out whether they have been achieved. Mechanisms to collect the appropriate data and monitor performance should be established. Blanchard (2002) conducted a study on teaching and targets, self-evaluation and school improvement in Britain. The study noted that teachers, school managers and governors were more publicly accountable than ever. They were expected unlike before, to know how their school was performing and how to improve that performance. The study found out that target setting was a key tool in the drive to raise standards and had been implemented at every level of the education system.

Mayne's (2001) study on the guide for monitoring and evaluating was similar with the study by Curristine, Lontt and Jourmard (2006). This is on the issue of performance measurement where his study concluded that, the use of performance measures or indicators is a basic component of results based management. The study concluded that developing and using performance measures requires expertise and skills that few managers start out with. It found out that evidence from countries like Norway, Denmark and the U.S.A indicated that training, guidance and the availability of technical assistance about performance assessment was required over a period of time. The study also found out that performance assessment approaches in some countries had detracted from measuring the intended targets. It also established that evidence from Hungary and Sweden indicated that official goals and objectives can be political as much as realistic appraisals of what is possible to accomplish. The study also concluded that meaningful assessment of performance needed to be broader than just identifying if pre-determined targets have been met.

2.2.2 Performance Contracting in Kenya

In order to move the implementation of the Public Service Response Performance forward, the Government developed and launched the Strategy for Performance Improvement in the Public Service in 2001. The Strategy sought to increase productivity and improve service delivery. It outlined the actions that were necessary to imbed long lasting and sustainable change in the way public services are offered. Underpinning this strategy was the Results Oriented Management (ROM) approach, which makes it necessary to adjust operations to respond to predetermined objectives, outputs and results. The adoption of this approach therefore demanded a paradigm shift in Government. This called for a transformation from a passive, inward-looking bureaucracy to one, which is pro-active, outward looking and results oriented; one that seeks 'customer satisfaction' and 'value for money'. Consequently, the ministries'/departments were required to develop strategic plans, which reflected their objectives derived from the 9th National Development Plan, the Poverty Reduction Strategy Paper and based on the Medium Term Expenditure Framework (MTEF), Sectoral Priorities and Millennium development Goals.

The second phase in the negotiation process is where all issues agreed upon are factored into the performance contract. The draft contract is then submitted to the performance contracting secretariat for vetting. The vetting process ensure among other things that the contracts comply with the guidelines and that they are linked to the strategic objectives of the institutions, anchored on the strategic plans, growth oriented and relevant to the mandate of the institution. The performance contracts are signed at two levels. In case of government ministries, the contract is signed between the Head of the Public Service and Secretary to the Cabinet, representing the Government on the one side and the Permanent Secretary of a Ministry on the other side. To ensure that Ministers, who represent the political body, are bound by the commitments of their Permanent Secretaries, they are required to counter sign the Performance Contracts (GoK,2004). In the case of state corporations, the first level is between the Government and the Board of Directors. The Permanent Secretary representing the parent ministry of the corporation signs with the Board of Directors on behalf of the government, while the board chair and one independent Director sign on behalf of the board. The board subsequently signs a performance contract with the Chief Executive to transfer the responsibility of achieving the targets to the management. This guarantees operational autonomy given that board of Directors are not executive and are not therefore involved in the day to day management of their corporations. Similar arrangements are replicated in the County Governments where the first level entails signing the contract between the Governors and the Cabinet Secretary for Devolution.

2.2.3 Challenges Associated with Implementation of Performance Contracting

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

The effective implementation of performance contracting requires us to focus on the following questions: what is the outcome or change that we are looking for as a result of this contract? How will we measure and evaluate if the result has been achieved? How will contractor performance affect our management decisions? (AAPAM, 2005). However, PC has some challenges. First, effectiveness measures, which examine whether the outcomes achieved were worthwhile and contained any long-term benefit, may be difficult to measure objectively (Dye, 1992). This is a great challenge to multinational banks in those monitoring costs for their subsidiaries. Another challenge of PC is the failure to articulate precisely how the specific performance measure will be defined, calculated and reported during the contract duration (Grinblatt & Titman, 1989). If the outcome requires the reporting of a percentage, the measure field should define both the numerator and denominator of the calculation.

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

In some cases, it may be difficult to identify concrete outcomes or results for a service. For example, training and education services might be provided with the goal of disseminating information and modifying people's behaviour, however, it may be difficult or impossible to track participants and determine whether the training helped people to think and act differently. If a department is unable to identify performance outcomes for a specific service type, a meeting with head of the section and other departments may be useful to stimulate new ideas and share best practices (Korir, 2005). In order for performance measures to be useful, it must be clear to everyone precisely what is being measured and how the measures are calculated. Achieving this degree of clarity between both the contractee and the contractor is one of the most difficult and challenging aspects of performance contracting. This will ensure that a contractor understands its responsibility and the data collected will be reliable (Musa, 2001).

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

2.2.3 Performance Measurements

The actual achievements of the agencies are rated against the set performance targets negotiated and agreed upon at the beginning of the period. The resultant difference is resolved into weighted scores and ultimate performance denominated to a composite score – the value of a weighted average of the raw scores in a performance agreement (Smith, 1999). The critical requirement for each target is that they must be growth oriented and therefore must be improving with time. The performance-rating instrument is based on the following attributes and criteria: Performance evaluation is the most critical stage in the process of Performance Contracting. It is the culmination of the process of performance contracting. The outcome of the process is the composite score; by using the composite score, it is possible to compare the performance of one organization with that of the others, sort out good performers from the poor performers and rank them in order of performance (Dye, 1992). Performance evaluation is the measurement of the extent to which public agencies and managers achieve their negotiated performance targets.

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

The objective of evaluating the performance of public institutions is to ultimately determine the performance of the public service manager by computing the managerial composite score. The Composite Score of an agency is computed by summing up all the weighted scores of all the performance indicators in the Performance Contract. The Composite Score ranges from 1.00 to 5.00. Performance evaluation focuses on both parties to the performance contract. In the case of the Government, the evaluation entails confirmation of whether or not the Government has fulfilled its obligations and commitments. The effective implementation of performance contracting requires us to focus on the following questions: what is the outcome or change that we are looking for as a result of this contract? How will we measure and evaluate if the result has been achieved? How will contract performance affect our management decisions? (AAPAM, 2005).

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actual performance data, contract specific goals for groups of contracts or for each individual contract to account for unique client needs, geographic consideration, funding levels or other variables that impact on performance and organization wide goals for all employees. In some cases, it may be difficult to identify concrete outcomes or results for a service. For example, training and education services might be provided with the goal of disseminating information and modifying people's behaviour, however, it may be difficult or impossible to track participants and determine whether the training helped people to think and act differently. If a department is unable to identify performance outcomes for a specific service type, a meeting with head of the section and other departments may be useful to stimulate new ideas and share best practices (Korir, 2005).

In order for performance measures to be useful, it must be clear to everyone precisely what is being measured and how the measures are calculated. Achieving this degree of clarity between both the contractee and the contractor is one of the most difficult and challenging aspects of performance contracting. This will ensure that a contractor understands its responsibility and the data collected will be reliable (Musa, 2001). Performance measure may involve the attainment of employment (PBMSIG, 2002). However, there are many opinions as to what constitutes a "job." It is the responsibility of the department to define that term in a way that addresses some of those unique characteristics of a job, such as any requirements concerning the number of hours worked each week, qualifying wage, benefit requirements and job retention requirements that, without being defined, might lead to disagreement between the contractors and the department. If a performance measure requires delivery within a specific timeframe, it would be important to define "working" days or "calendar" days to avoid any confusion. It is also important to define how performance will be calculated if the measure includes percentages.

2.3 Service Quality

According to Parasuraman et al., (1988), service quality can be defined as an overall judgment similar to attitude towards the service and generally accepted as an antecedent of overall customer satisfaction (Zeithaml and Bitner, 1996). Parasuraman et al (1988) have defined service quality as the ability of the organization to meet or exceed customer expectations. It is the difference between customer expectations of service and perceived service (Zeithaml et al, 1990). Perceived service quality results from comparisons by customers of expectations with their perceptions of service delivered by the suppliers (Zeithaml et al, 1990). If expectations are greater than performance, then perceived quality is less than satisfactory and hence customer dissatisfaction occurs (Parasuraman et al, 1985; Lewis & Mitchell, 1990).

Parasuraman et al., (1985) identified five detailed dimensions of service quality: First are tangibles, which are appearance of physical facilities, equipment, personnel, and communication materials. Second is reliability, which is the ability to perform the promised service dependably and accurately. Third is responsiveness, which is willingness to help customers and provide prompt service. Fourth is assurance, which is knowledge and courtesy of employees and their ability to convey trust and confidence (competence, courtesy, credibility and security of the service). The last is empathy, which is caring, individualized attention the firm provides its customers (Access to organization's representatives, communication and understanding the customer. To this extent, universities have become increasingly involved in defining service quality and measuring customer satisfaction in ways that are familiar to service marketing specialists (Gronroos, 1984), who was developing measures of service quality from the 1980s.

Customer satisfaction is one of the best-studied areas in marketing, because it has become a principal factor in achieving organizational goals, and is considered a baseline standard of performance and a possible standard of excellence for any organization (Munusamy and Chelliah, 2011). The slogan "the customer is always right" highlights a high priority and the importance of customer satisfaction (Fecikova, 2004). Companies recognize that keeping current customers is more profitable than acquiring new customers to replace those who have been lost (Boulter, 2013).

Considering the intense demands by customers and the demand for quality service, just satisfying customers is not enough. Rather, they should be extremely satisfied, which can initiate brand loyalty and better long-term relationships with customers who are then less prone to overtures from competition. However, conversely, dissatisfied customers can express their feelings through their behavior (Zeelenberg & Pieters, 2004). These negative behavioral responses may impact on a firm's profitability. At the very least, consumers can express negative feelings to people they know, and due to advancements in digital communication, word-of-mouth can spread rapidly, which can very likely affect a business's reputation in a positive, or, more worryingly, a negative way (Babin and Harris, 2012). Research shows that an unsatisfied customer will communicate to nine other people his or her bad experience (Hoffman and Bateson, 2010). This negative word-of-mouth can be very harmful, and can adversely impact the firm's reputation and profitability. The good news for marketers is, however, that if firms satisfactorily resolve customers' problems, previously dissatisfied customers will spread this news to five other people concerning the treatment they have received, and they will be more likely to do business again with the firm than non-complainers.

Satisfaction is an immediate response to consumption, while service quality is interpreted as the overall impression of a customer's judgment concerning service provided (Culiberg, 2010). Service quality is influenced by expected service and perceived service. If services are received as expected, the service quality is satisfactory, but if the services received exceed their expectations, customers will be delighted, and will perceive service quality as excellent and vice versa (Parasuraman et al, 1985). So, improving service quality depends on the airlines' ability to consistently meet the needs as well as desires of passengers. Airlines can benefit as well as achieving competitive advantage by doing their best to create and maintain service quality, which can lead to customer satisfaction. This in turn will grant various benefits to the airline by, for instance: (1) building strong relationships between the airline and its passengers, (2) providing a good basis for re-purchase activities, (3) encouraging passenger loyalty, (4) creating recommendations by word-of-mouth which will promote the airline, (5) creating a good corporate reputation in passengers' minds, and, finally, (6) by prompting an increase in the airline's profits (Rizan, 2010). Thus, airlines must realize the strategic importance of quality: continuously upgrading quality is not costly in the long term; rather, it is an investment that will generate greater profits.

The evaluation of service is generally assessed through the service quality procedure known as SERVQUAL, which contains five dimensions: reliability, responsiveness, assurance, empathy, and tangibles, which employs a 22-item instrument for measurement (Parasuraman et al., 1985). Despite its widespread application, it might not be suitable for measuring all aspects of an airline's service due to the different characteristics and features of service quality in the airline industry as compared to other industries. Also, the universality of the five dimensions of SERVQUAL has been questioned by many authors (Cronin & Taylor, 1992; Culiberg, 2010). It is argued that these five dimensions are industry-specific and cannot be applicable to all service industries without modifications (Culiberg, 2010). To apply the SERVQUAL framework to this research, the researchers have ensured that the selection of questions and dimensions of the framework are commensurate with the service quality of the airline under investigation. For the purposes of the present research, service quality is measured by making use of six dimensions: reliability, responsiveness, assurance, tangibility, security and safety, and communications.

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

There are two main models of service quality, which include: Service Quality Model of Glied, (2000) which indicates that the expectations of the customer depend on the five determinants market communication, image, word of mouth, customer needs and customer learning. Experiences depend on the technical quality (what/ outcome) and the functional quality (how/process), which is filtered through the image (who). Both expectations and experiences can create a perception gap. While the Gap Model propounded by Parasuraman, Zeithaml and Berry (1990) was a slight modification of Gonzalez Padin and Romon (2005) model and says that the expected service is influenced by the word-of-mouth, the personal needs, past experience and also by the external communication to customers. A perception gap can appear between the expected service and the perceived service (Coulthard, 2004). Petrick (2009) identified ten determinants of service quality that may relate to any service: Competence, Courtesy, Credibility; Security; Access; Communication, Understanding knowing the customer; Tangibles; Reliability; Responsiveness. Later they were reduced to five to include Tangibles; Reliability; Responsiveness; Assurance: competence, courtesy, trustworthiness, security and Empathy.

Reliability is the ability to perform the promised services in a dependable, accurate and fully responsible manner, without negligence and failure (An & Noh, 2009). Reliability has been operationalized using four items: efficiency of the check-in process, flight punctuality, reaching the destination within the promised time, and the handling of missing luggage complaints. Responsiveness is the willingness to help passengers, provide prompt service, and respond quickly and immediately to their requests (Bebko, 2000). Responsiveness has been operationalized by means of four items: willingness to help, attention to passengers' needs, keeping passengers informed about delivery of services, and keeping passengers updated in case of any modification in the flight schedule. Assurance involves both knowledge and courtesy on the part of employees, and their ability to convey trust and confidence (Buttle, 1995). Assurance has been operationalized via four items: the employees' skillfulness in providing service, courtesy towards customers, employees' ability to create confidence in passengers, and employees' expertise when responding to passengers' questions.

Tangibility refers to the appearance of physical facilities, equipment, personnel and communication materials (Lundstrom & Dixit, 2008), and involves any real object(s) perceptible by touch. Tangibility was measured using eight items in this study: cleanliness of the aircraft interior, cleanliness of the exterior of the aircraft, comfort of seats, employees' attire, variety in in-flight entertainment facilities, variety and quality of in-flight meals, aircraft facilities generally, and installation of up-to-date technology.

Studies on the significance of service innovation have supported the assertion on service innovation as “new ways that service systems”, including higher education institutions, can adopt to improve on service delivery for enhanced satisfaction (Christensen, et al, 2011). Hence, innovation involves a process of exploiting new ideas successfully in order to improve competitive position in the marketplace. Also a study concludes that in many industries, including higher education industry, competition leads to service innovation, which in turn leads to customer satisfaction (Aranda et al, 2002). The service ecosystem comprising of many types of service systems: individuals, for-profit organizations, governments, higher education institutions are all interacting through value propositions to render services to numerous customers: individuals, students, and society. As such, because of the interaction amongst the aforementioned actors in the services cape, service innovation has become imperative in order to respond to the changing global expectations and needs in the higher education industry.

The need for service innovation can also be attributed to the growth in service activities across different industries. In this regard, it is affirmed that “the growth of service activity across industries is now widely recognized”- thus, leading to a shift in emphasis from improving on existing offers, to development of new offers that would attract new group of customers (Christensen et al, 2011). For instance, in the higher education industry, many conventional universities are now striving to bring into their customer net, those potential students who may not want to enroll in to the traditional class-based tutoring system either as a result of work schedules, family engagements or expensive tuition fees. On recognition of these inhibiting factors, flexible learning systems such as module- based tutoring, distance and online education are some of the new innovations introduced by the universities targeted at these disadvantaged customer group.

Similarly, specialized institutions such as technological universities can adopt innovative strategies of introducing new course offerings, like information and communication technology (ICT), biomedicine, bioengineering, nanotechnology, biotechnology, medical engineering, which are not found in the traditional universities and also making huge investments in the provision of state-of the art-facilities with a view of attracting new candidates and to positively skew service quality perception of existing students (Mathew, 2010).

A study by Sharma et al, (2011) on Chinese and Indian Insurance Industry emphasized the importance of the employee in providing services. The research found that customers continue to value person-to-person contact in both the countries. Despite the changing environment, customers still assess service quality primarily in terms of the personal support they receive from employees and the benefits they get from such long-term relationships. These benefits include first-rate service, personal recognition and friendly interactions, and a sense of confidence and trust. A perception survey of African banks by KPMG (2013) showed that customers showed staff friendliness as the most important factor influencing their satisfaction with their bank. Three in ten customers said they were very satisfied with their bank staff�been knowledge of banking products and only ten percent indicated that they were extremely satisfied that their complaints were being promptly addressed.

A study by Wanjau et al (2012) in the Kenyan health sector revealed that low employee‘s capacity affects delivery of service quality to patients in public health sector affecting health service quality perceptions, patient satisfaction and loyalty. The study tied successful recruitment and retention of staff to empowerment of staff and recommended that staff be treated as full partners in the hospital operation and given opportunities for advancement. A study by Kamau & Waudo (2012) found that there is a relationship between the skills expected by the hospitality industry employers‘and the set hotels’ quality standards. Skills with significant relationship like customer care, multi-skills, communication and understanding the level of service were expected in any hotel irrespective of its classification. The study found a notable difference between managers and employees‘expectation. The biggest difference in the expectations seen was that many employees think that the industry expects them to be competent in communication skills, specific technical skills, computer, good work habits, customer service and self-discipline.

These findings were consistent with those of Kimungu & Maringa (2010) that employee factors affect service quality. Kimungu and Maringa’s study however focuses on employee turnover and how it relates to customer satisfaction in services and competitiveness of an establishment. The study revealed that low job satisfaction, unfavorable working conditions, and slow career advancement were major factors influencing employee turnover which interfered with internalization of standards by the employees resulting to lower quality of service and reduced customer satisfaction thus making an establishment less competitive. The respondents indicated that most customers normally preferred being served by the same person every time they visited an establishment. The behavior and attitude of both management and employees were found to play a role in employee turnover. The study found out that many managers in the Kenyan hotel industry viewed an employee‘s experience as having worth when reflecting a diversity of other past.

Employers and this influenced employees‘ behavior and attitudes into changing jobs frequently in order to gain the much needed experience. According to the study, lack of proper orientation and training made it difficult for new recruits to internalize establishment‘s service standards which are key foundation for quality service. A study by Kuria *et al* (2011) agrees with Kimungu & Maringa (2010) that to achieve quality service, establishments need a relatively stable labour force to allow internalization of service standards. The study recommended hotels should initiate employee retention programmes as human capital is the most valuable asset in all organizations and review the employees’ welfare conditions such as introducing flexible work hours to the employees in order to balance individual work and personal life among other incentives. The two studies concluded that high levels of employee turnover will negatively impact the quality of service and the desired competitiveness of an establishment.

Internal marketing approach was adopted and all variables were measured from the frontline employee's perspective. Hanzaee and Mirvaisi (2011) in their study on customer satisfaction in the Iran hotel industry concluded that, all dimensions of customer image and service quality perception have significant relationships with customer satisfaction. A study by Kimani, Kagira & Kendi, (2011) on business students‘ perception of service quality appears to support Gronroos (1988) to the extent that students consider technical quality in the education they get and functional quality in the administrative and student support they receive from the employees of the universities and this influences their image of the institution. The study ranked administrative aspect which is concerned with such elements as keeping accurate records, providing prompt service, courtesy, providing individualized attention, showing sincere interest to students, proper communication.

According to Herington and Weaven, (2009) personal needs, site organization and user friendliness have been found to have a positive as well as compelling influence on satisfaction level of customers. The management of online banking should also be very conscious about the services which have been provided conventionally in order to maintain the relationships with the customers. The recommendation by the researcher is that banks should evaluate their performance of the e-service quality. Nupur (2010) analyzed on internet banking and the customer satisfaction in Bangladesh. The SERVQUAL model was used to measure the association between the level of customer satisfaction and internet banking. The main dimensions examined are reliability, empathy, responsiveness and assurance. According to him the tangibles dimension did not any link with customer satisfaction. Sadeghi & Hanzaee (2010) have studied about the variables which effect the customer satisfaction in the internet banking.

The study shows that reliability, design of the website, image, accuracy and impression of the management of bank has the most significant impact on the satisfaction level of customers. Privacy and security also have an impact on customer satisfaction, but in small amount. Ahmad & Zubi (2011) discussed that three variables namely, privacy, content and security have the most numerous impact on customer satisfaction. Zhangwei (2012) introduced the set of price, reputation, privacy, personalization & customization, empathy and physical back up. Fatemah, Ahmad & Ezzatollah (2014) shows that the reliability has the most relation with website design & has latest relation with website design. It also has the latest relation with the customer satisfaction in net banking.

Reliability refers to the promises given by the Manager of bank or staff. If the staff cannot keep or breaks the promises, it dissatisfies customers and results in negative word-of-mouth. In contrast, when the company is able to keep its promises, it increases customer confidence on the staff and creates customer satisfaction and lead to (Yuen & Chan, 2010). It is very important dimension of service in conventional sectors (Parasuraman, Zeitham, & Berry,

1985) Banks introduce different methods to secure the data of customers (Parasuraman, 1988). While doing financial transaction with banks, there are doubts in minds of customers about the reliability of bank services (Wang, 2003). Measuring reliability through the service customers without errors and quick page downloading can be helpful to satisfy customer needs and trust on the company. NatWest, one of the U.K big leading banks was the only site monitored to have no errors on any page during the peak period hours of the study. Poorly organized home pages of the bank can push potential customers to the competitors and it lacks customer support.

Empathy is about the personal attention extra care and better understanding of customers. Empathy is all about entertaining the customers in term of place, better communication and time. It focuses on customer's importance even complains of customers really matter (Lee et al, 2009). It is argued that customer satisfaction can be achieved by cutting off complains (Ahmed et al, 2001). It also focus on what type of services are providing to customers (Mohammad & Shireen, 2011). Empathy has an important but inverse influence on customer satisfaction. According to a research empathy and responsiveness are the leading factor of service quality (Shanka, 2012). Empathy seems to be a light of human concern for others. Empathy plays an important role to improve the market segments, economics and service. Through quality, competition can be best managed as well as customer satisfaction can be achieved. By anticipating customer's needs and providing them personal care customer loyalty can be gained and it can be the cause of cost reduction.

Reputation means keeping promises, goodwill, image, mass popularity and reputation for transaction with beneficiaries. Along with it seems to be a critical factor (Wang et al, 2011). It is also argued that reputation is a tool which measures the impact of an organization on customer satisfaction (McKnight & Chevany, 1998). It's all about the trust people have on an organization and trust can be earned by making them convinced that the organization really has some worth of its words. For this construct, all indicators were adopted from Flavian et al. (2004). Reputation has been defined as an estimation of the consistency over time of attribute of an entity (Herbig and Milewicz, 1993). An organization can therefore have numerous reputations, such as, price, product quality and innovativeness reputations, and/or global reputation. According to Casalo et al. (2008), reputation must be understood as referring not only to the website, but also the entire organization. When comparing on- and offline exchange, Standifird et al, (1999) argued that the reputation of online suppliers are significantly more important to online consumers than any offline context .It was the idea of banking that by the monetary and financial policies of author, the business was being influenced strongly, it depicts that reputation is the spark of human concern (Ghezzi & Magnani,1998).By using internet and providing facilities to the customers an organization can have a strong and good reputation.

Privacy is the degree to which the customer believes the site is safe from intrusion and personal information is protected. Rangnathan and Ganapathy (2002) found that privacy is the one dimension that makes the effective web site. Furnell and Karweni (1999) describe that people don't trust on the website and avoid putting the data on it. Privacy is becoming most important and risky part in banking sector due to advance information technology sector. Fraud immobile banking is so common and highly risky now days. It can be reduced by implementing password on the phones, SMS and e-mail alerts with every transaction. Freeze the accounts until the verification from customer. Privacy violations can be take place in many ways while sharing personal information's with third parties. The need is for some satisfaction and rules to gain trust on customers. This will help out not only reduced the risk but also gain the trust on customer satisfaction.

2.4 Performance Contracting Strategies and Service Quality

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

Performance measurement is often taken to be fundamental to delivery of improved services as part of NPM. Emphasis on performance management for delivery of results is undoubtedly influenced by the basic assumption of performance management which lies in its professed ability to unite the attention of institution members on a common objective and galvanize them towards the attainment of this objective (Balogun, 2003). It is this supposition of harmony of vision that underpins the New Public Management faith in leadership and its favorable inclination towards managerial empowerment, as seen in performance management principles.

The use of performance data to inform management is not a new concept. The belief that concrete data on organizational performance, or performance metrics, should guide managers' decision making has framed most discussions of management in public and nonprofit agencies in the developed and developing countries since the early 1990s. With the increased emphasis on quantitative measurement of outcomes, the term "performance measurement" has become a higher priority. Measuring and reporting on organizational performance focuses the attention of public managers and oversight agents, as well as the general public, on what, where and how much value programs provide to the public (Forsythe 2001; Hatry 2006; Newcomer, Jennings, Broom & Lomax 2002; & Poister, 2003). The strategic use of performance management is thus intended to help drive change efforts from process to results orientation in the public service.

Performance management aims at by and large to attaining operational effectiveness which in a broader sense refers to a number of practices that allow an organization to better utilize its resources. The quest for productivity, quality and speed has spawned a remarkable number of management tools and techniques; total quality management, benchmarking, re-engineering and change management to mention just a few. All these, if pursued from strategy angle leads to emphasis being put on the wrong place. Typically, public agencies either are not clear about their goals or are aiming at the wrong goals. This lack of clarity can be attributed to the fact that most public agencies have to deal with multiple principals who have multiple (and often conflicting) interests (Triveldi, 2000). This leads to fuzziness in the agencies perception of what is expected of them.

These challenges are clearly stated in the introduction of the Civil Service Reform Strategy document (1993) "As the third decade of independence draws to a close, Kenyans are facing new challenges in economic management and public policy. Quality public services remain a priority, but cost considerations have become significantly more important. Not only must Kenyans needs be met, they must be met efficiently. Pervasive reform of the Civil Service is therefore required. In response to this imperative, a wide ranging review of the structure and functions of the Civil Service has been conducted, and extensive recommendations and an action plan for reform have been developed."

Similar reasoning influenced the introduction of performance based accountability system in the United States of America almost two decades ago in the education system. Performance-based accountability systems in the United States education sector just like in the rest of the public sector share the common assumption that information about performance improves quality and reliability of service. Creating public information about the public sector's performance, the theory goes, improves the quality of service (Elmore, 2007).

The steering committee developed tools and instruments for introducing and implementing performance contracts and evaluating the same. These include subsidiary legislation for state corporations and local authorities; model performance contracts and matrices; training manual and information booklet; and guidelines for contracting and evaluation of ministries/departments, state corporations and local authorities. Of particular significance is the inclusion of citizens' service delivery charters and customer satisfaction surveys in the performance contract strategy. These are vital instruments for enhancing and measuring the quality of service delivery and by extension ultimately may lead to reduced incidences of corruption.

There have been several Government initiatives since 2002 meant at improving delivery of services. The enactment of the Public Procurement and Disposal Act, 2005 was meant to streamline procurement efforts within government and avoid wastage of resources. The Anticorruption and Economic Crimes Act, 2003 are among several other initiatives that have generally contributed to overall government performance and service delivery. The current performance management system popularly known as performance contracting in government was introduced in 2004. Since then, the system has gone through its own measure of successes and challenges- Log Associates, Evaluation of Performance Contracting, Final Report, 31st March, 2010. Performance management is aimed at improving service delivery in the public sector and these efforts have been tried applied elsewhere including Malaysia, Singapore, US, among others with generally mixed results. Performance contracting in Kenya is still in formative stages. However, within its few years of existence, the system has registered mixed results. Whereas, in some sectors, the system has contributed significantly to improve administrative and financial performance, in others, results are yet to be realized. The lack of universal acceptability was one of the reasons various institutions began participation in the system at different times. The bulk of the institutions registered their first participation in 2005/2006 though introduction of performance contracting in some government institutions has been met by resistance.

Performance contracting constitutes a range of management instruments used to define responsibilities and expectations between parties to achieve mutually agreed results. It is a useful tool for articulating clearer definitions of objectives and supporting innovative management, monitor and control methods and at the same time imparting managerial and operational autonomy to public service managers. Performance contracting originated in France in the late 1960s and has been used in about 30 developing countries in the last fifteen years. Performance contracting use has been acclaimed as an effective and promising means of improving the performance of public enterprises as well as government departments all over the world. Its success in such diverse countries as France, Pakistan, South Korea, Malaysia and India has sparked a great deal of interest in this policy around the world. The latest country to adopt the system is Rwanda. A large number of governments and international organizations are currently implementing policies using this method to improve the performance of public enterprises in their countries.

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

Public service in many African countries is confronted with many challenges, which constrain their delivery capacities. They include the human resource factor, relating to shortages of the manpower in terms of numbers and key competencies, lack of appropriate mindsets, and socio-psychological dispositions. There is also the perennial problem of the shortage of financial and material logistics that are necessary to support effective service delivery. On the other hand, the gradual erosion of the ethics and accountability has continued to bedevil the public sector in delivering public services to the people effectively. Public sector reforms meant to address these challenges have achieved minimal results Lienert, (2003) "Civil Service Reform in Africa: Mixed Results after 10 years" According to the PC guidelines for the years 2008/2009 published by the department, it is a requirement that all public institutions prepare performance contract. The strategic Plan is a cornerstone for the implementation of a performance contract. The strategic objectives in the strategic plans of public institutions should be linked to government policy priorities and the objectives as set out from time to time, in such policy publications as the National Development Plan and the Vision 2030. In the case of public institutions which do not have strategic plan in place at the time of preparing a performance indicator under the "Non-financial" performance criterion. The institutions were also to come up with Citizen Service Delivery Charter and carry out Customer Satisfaction Surveys.

Opiyo (2006) in his discussion paper series "Civil Service Reform Policy in Kenya" states that in an effort to achieve the objectives and targets of Economic Recovery Strategy and to manage performance challenges in public service, the government adopted Performance Contracting (PC) in public service as a strategy for improving service delivery to Kenyans. Performance Contract is one element of broader public sector reforms aimed at improving efficiency and effectiveness.

Kenya's public financial and accountability framework is anchored in the constitution and several Acts of Parliament. Articles 48 and 99-105 of the constitution deal with issues of public finance and its management. Several institutions have been in place playing varying roles in the accountability framework set out under the constitution and Acts. Some of these key institutions include: parliament, Kenya Revenue Authority, National Audit Office. Oyugi, (2005)notes in his research paper "The budget and Economic Government in Kenya" that the Controller and Auditor General (C & AG) is charged with the mandate of overseeing public finance under the Exchequer and Audit Act (Cap 412) of the laws of Kenya. However, by 1997, it was noted that management of public finance in Kenya was riddled with irregular withdrawal from consolidated fund, delays in the production of audit reports, laxity in acting upon audit recommendations and limited financial and human resources capacities for the controller auditor general's office.

Several organizational theories have looked at the effects of performance targets on behavior and performance. There is a set of theories that look at targets as motivational tools and explain their effects from a psychological point of view, for example, Vroom's (1964) expectancy-value theory; Atkinson's (1957, 1974) achievement motivation theory; and Locke and Latham's (1990) goal-setting theory. There are theories that study performance targets as decision-making tools as in the case of Kahneman and Tversky's (1979) prospect theory or Greve's (2003) theory of learning from performance feedback. Finally, there are theories that investigate performance targets as interest-alignment mechanisms such as agency theory

(Jensen and Meckling, 1976; Eisenhardt, 1989) and Wiseman and Gomez-Mejia's (1998) behavioral agency theory. The key predictions about the impact of performance targets suggested by these theories are now briefly described.

Performance targets can be used alone or they can be linked to incentive plans as agency theory suggests (Jensen & Meckling, 1976; Eisenhardt, 1989). In sales environments, performance targets are typically linked to incentive pay (Sands, 2000). According to the literature, there are a number of ways in which performance targets can be linked to incentive compensation and each way has its advantages and disadvantages. Management selects the different structures that target-based incentive plans take depending on situational characteristics such as: the strategic business objectives, specific constraints (for example, sales people's equity perceptions, sales people's earnings security), available information (for example, on territory sales, sales people's risk preferences) and ability to predict future results, sales management culture and philosophy (Darmon, 1997; Zoltners, Sinha & Lorimer, 2006).

The different ways in which performance targets can be linked to pay are described here by reviewing the following design options (Darmon, 1997; Locke, 2004; Sands, 2000; Zoltners et al., 2006). Firstly, the achievement of performance targets can be linked to bonus plans, commission plans or both. Secondly, the achievement of performance targets can be associated with a single payment level, with multiple payment levels or it can be linked to monetary rewards using a linear relationship. Thirdly, payments for the achievement of performance targets can be subject to an upper level limit, a threshold, or both. Finally, performance targets can be set for a sales person and the associated rewards can be given not only based on how well the person achieved the targets –as all the previous design decisions assume–, but also on an evaluation of the circumstances under which the sales person achieved his/her targets. These options are not necessarily mutually exclusive as they all tend to be combined in practice. Each of these five design options is described as follows.

Performance targets are intrinsically related to performance measures. Assuming that performance targets are set appropriately, performance measures need to be the "right" ones – i.e. they should be measures that adequately identify and assess the drivers of business success– in order to generate the expected behaviours. As suggested earlier, researchers have mainly investigated the impact of performance targets on behaviour without questioning the validity of the performance measures associated with targets (Schwepker & Good, 2004;

Winer, 1973; Wotruba, 1989), which is a clear gap in the literature. A variety of measures can be used to assess the performance of a sales function; however, not all of them are appropriate for target-setting and incentive purposes (Zoltners et al. 2006). Before going into the type of performance measures that can be adequate for target-setting and incentive purposes, let us focus on some issues that are generic to all performance measures.

2.5 Theoretical Framework

2.5.1 Social Cognitive Theory

The social cognitive theory as developed by Albert Bandura (1986) informs this study. It is based on the concept of self-efficacy. Bandura (1986) argued that much human behavior is regulated by forethought embodying cognized goals and personal goal setting is influenced by self-appraisal capabilities. The stronger their perceived efficacy, the higher the goals people set for themselves and the firmer their commitment to them. This implies that what people believe that they can or cannot do powerfully impacts on their performance. In so doing it enables them to develop positive thinking and self-confidence or belief. Thus it improves employee performance. People's self-efficacy beliefs determine their level of motivation as reflected in how much effort they will exert in an endeavor and how long they will persevere in the face of obstacles. The stronger the belief in their capabilities, the greater and more persistent are their efforts (Locke, Frederick, Lee & Bobko, 1984; Bandura, 1986). Thus self-efficacy exerts a strong impact on human thought, motivation and action. It refers to one's beliefs in one's ability to mobilize the motivation, cognitive resources and courses of action needed to meet given situational demands (Seokhwa, 2009).

According to Bandura (1986) people willingly conduct challenging activities and pick social environments they believe they are capable to manage. On the other hand, they avoid activities or environments they judge they cannot cope with. In this regard, top managers' efficacy beliefs are positively related to the aggressiveness of the organization's strategy and to the number of the strategic actions the organization takes against its competitors. They are able then to make decisions on strategic choice and resource allocation (Seokhwa, 2007). This study interviewed principals and sought information from heads of department of technical institutes on their views about the impact of performance contracting on the performance of tutors and resource utilization. It was important to establish their perceptions about the impact of performance contracting on tutor utilization since as the theory postulates, employees pick on activities and act in environments they feel they can ably manage. If the activities are too challenging and the environments not conducive, then they usually abandon them or get demotivated.

Clark (1998) also contends that expectancy theories are founded on the premise that human beings think in a rational calculative and individualistic way. He argues that performance management is based on extremely rationalistic, directive view of the organization which assumes not only that strategy can be clearly articulated but also that the outcomes of human resource processes can be framed in a way that makes clear their links to the organization's strategic objectives. Employees in organizations therefore will make performance contracting initiatives succeed or fail depending on the expected benefits they are to derive from the same.

2.6 Conceptual Framework

The model below presents the interrelations of performance contracting and service quality variables.

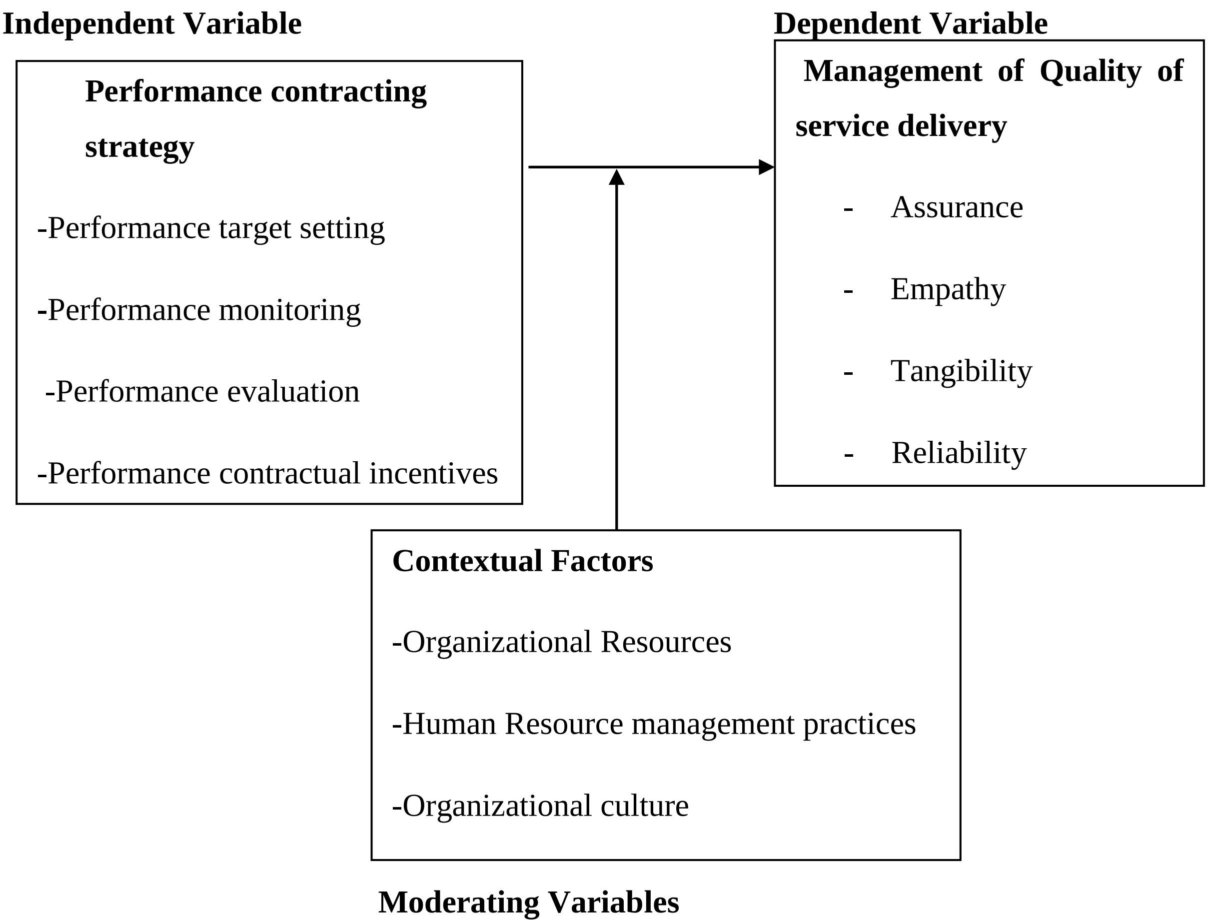

Figure 2.1: Relationship between Performance Contracting strategy, contextual factors and management of quality of Service delivery

The independent variables of the study are the components of performance contracting which include; target setting, performance evaluation, monitoring and performance contractual incentives. The dependent variable is the management of quality of service delivery measured in terms of affective, cognitive and behavioral manifestations of satisfaction. Affective satisfaction influences individuals' cognitive processes such that their resulting behaviors may be either affectively or cognitively driven. With only a few exceptions, a vast number of studies have consistently found management of service quality to be significantly associated with service quality. The moderating variables are; organizational culture, human resource management practices and government employment policies. When the organizations implements all the elements of performance contracting, then employees will be satisfied with their jobs leading to increased manifestation of excitement, happiness, a feeling of the job being valuable and beneficial and employees' punctuality which will all lead to quality service delivery.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter focuses on the methodology to be used including the research design, study population, sampling size and sampling procedures, data collection instruments and analysis of the data collected.

3.2 Research Design

The study adopted a descriptive survey research design. This design was appropriate for the study as it enabled the researcher to describe the status of performance contracting in public units in Nakuru County as it existed and also establish the status of service quality in the public units. According to Mugenda (2009) a descriptive survey research design describes relevant aspects of the phenomenon of interest from various perspectives. Orodho (2004) asserts that a descriptive survey design allows a researcher to present and interpret collected data about a certain phenomenon for the purpose of clarification. The descriptive design describes the phenomenon, examines actions as they are or as they happen rather than manipulation of variables (Orodho, 2004). Data in a descriptive study is presented in a meaningful form that enables the researcher to undertake options in a given scenario and making decisions. A descriptive survey research design entails collection of data so as to obtain solutions on the subject under study.

3.3 Population of the Study

The target population for the study was the management of the Public Units in Nakuru County. There are 43 Public Units including; the Devolved Functions, the Non-Devolved Functions, Sub-Counties and Parastatals (Central Bureau of Statistics, 2014).

3.4 Sample Design and Technique

The study applied the census method to sample all the 43 Public Units in Nakuru County which included; devolved, non-devolved and Parastatal units since the population was small. Miles (2004) asserts that one approach is to use the entire population as the sample and is the best sample for any research. However, cost considerations make this impossible for large populations; census sampling is attractive for small populations like 200 or less. A census sampling technique eliminates sampling error and provides data on all the individuals in the population. Moreover, developing the sampling frame and some costs such as questionnaire design are "fixed," that is, they will be the same for samples of 30 or 200. Virtually the entire population would have to be sampled in small populations to achieve a desirable level of precision.

3.5 Data Collection

The researcher used close ended questionnaires based on Likert Scale as the main mode of data collection. The use of questionnaires was justified because they were an effective way of collecting information from the target population in a short period of time and at a reduced cost. The questionnaires collected data on the effect of performance contracting on service quality in public units in Nakuru County. The questionnaires were also preferred because they facilitated easier coding and analysis of data collected (Kothari, 2004). The closed ended questions ensured that the respondents were restricted to certain categories in their responses. The questionnaires were personally administered by the researcher based on a drop and pick after one day basis. This method of administration was preferred because it ensures a higher response rate. This method also ensured that the respondents' queries concerning clarity were addressed at the point of data collection; however, caution was exercised so as not to introduce bias in the process.

3.6 Validity and Reliability of Research Instruments

3.6.1 Validity of the Instruments

Validity is the degree to which results obtained from analysis of the data actually represent the phenomenon under study (Mugenda & Mugenda, 2003). It is the accuracy and meaningfulness of inferences, which are based on research results. It means the agreement between the value of measurements and its true value. Validity is quantified by comparing measurements with values that are as close to the true values as possible. Poor validity also degrades the precision of a single measurement, and it reduces the ability to characterize relationships between variables in descriptive studies. Validity indicates the degree to which an instrument measures what it is supposed to measure. In this study Validity was tested through the expert judgment of the research supervisors. In this case this entailed the instruments being examined by experts in the faculty of Commerce of Egerton University.

3.6.2 Reliability of the Instruments

Reliability is the measure of the degree to which a research yields consistent results or data after repeated trials. It is the degree of consistency that the research instruments or procedures demonstrate. It was qualified by taking several measurements on the same subjects. Poor reliability degrades the precision of a single measurement and reduces the ability to track changes in measurement in a study (Mugenda & Mugenda, 2003). In order to ensure reliability of the instruments, a pilot study was conducted in 5 public units in Kericho County using the same tool to gauge responses for the purposes of improving the tool. The Cronbach's coefficient alpha was applied on the results obtained to determine how items correlated in the same instrument. Cronbach's coefficient Alpha of 0.757 was obtained which enhanced the identification of the dispensable variables and deleted variables. Thus the threshold of a 0.7 coefficient was reached and this enabled the instrument to be considered reliable.

3.7 Data Analysis and Presentation

The questionnaire was first edited and coded to ensure completeness and accuracy. The computer application package for social sciences SPSS (Statistical Package for Social Sciences) was used to aid in the analysis. The data was analyzed through the use of descriptive statistics to summarize the data. The relationship between each of the variables in performance contracting and service delivery was tested using a Pearson's Correlation. The combined effect of each of the elements in performance contracting and service delivery was tested with the regression model below.

$$y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where:

Y= Quality of Service Delivery

α =Constant

$\beta_1 \dots \dots . \beta_{4d}$ = Regression coefficients

X_1 = Performance targeting

X_2 = Performance monitoring

X_3 = Performance evaluation

X_4 = Performance contractual incentives

ε = the error of prediction.

CHAPTER FOUR

FINDINGS AND DISCUSSIONS

4.1 Introduction

The chapter presents the results of data analysis of the effect of performance contracting on service quality in the devolved and non-devolved functions of government in Nakuru County. The chapter contains; demographic analysis of the respondents, effect of performance target setting on the quality of service delivery, effect of performance monitoring on the quality of service delivery, effect of performance evaluation on the quality of service delivery and effect of performance contractual incentives on the quality of service delivery.

4.1.1 Questionnaire Response Rate

The study distributed a total of 43 questionnaires to the respondents and managed to collect back 43 representing 100% which was acceptable according to Mugenda and Mugenda (2003). The high questionnaire response rate resulted from the method used in the administration of the instrument.

4.2 Descriptive Statistics

The study analyzed the respondents' demographic information that included; the departments where the respondents work, work experience and level of education.

4.2.1 Demographic Characteristics of the Respondents

Table 4.1

Demographic Characteristics of the Respondents

Characteristics		**Frequency**	**Percent (%)**
Position	Administrators	23	53.5
	Manager	20	46.5
	Total	**43**	**100**
Highest Level of Education	Diploma	13	30.2
	Degree	21	48.8
	Masters	9	20.8
	Total	**43**	**100**
Years of Service	Less than 5 years	17	39.5
	5-10 Years	26	60.5
	Total	**43**	**100**

Most (53.5%) of the respondents sampled were administrators while the rest (46.5%) were managers. This shows that majority of the public units were managed by administrators as opposed to intrinsic managers. Majority (48.8%) of the respondents had degree qualifications while 20.8% had masters level qualifications and 30.2% had diploma qualifications as their highest level of education. These findings suggest that all the managers heading the public units in the county had tertiary level of education and thus could be reasonably expected to deliver on their mandate. The results also indicate that majority (60.5%) of the respondents had worked in the public sector for between 5 and 10 years and thus were expected to have been in a position to observe the changes in service delivery in the sector over time since the introduction of performance contracting and give a fair assessment of it.

4.2.2 Effects of Performance Target Setting on Quality of Service Delivery

The first objective of the study was to determine the effect of performance target setting on the quality of service delivery in Nakuru County. The indicators used to analyze performance target setting included; employees involvement in performance target setting, setting SMART objectives, work plans and availability of the required resources for the work. The status of effects of this variable was rated on a 5 point Likert scale ranging from; 1 = strongly disagree to 5 = strongly agree. The results on this are summarized in Table 4.2.

Table 4.2

Effects of Performance Target Setting on Quality of Service Delivery

Statement	N	Mean	Std. Dev.
Our staff often set their performance targets	43	4.15	1.35
Our staff are conversant with setting SMART targets	43	4.07	1.06
We usually communicate our objectives to the staff before we let them set their performance targets	43	4.14	0.98
Our staff know how to plan their work to achieve their targets	43	4.27	1.21

The results in Table 4.2 suggest that in most of the public units in the county, the staff were often allowed to set their own performance targets as indicated by majority (mean = 4.15) of the respondents who agreed with the statement. It was also evident that most (mean = 4.07) of the staff were conversant with setting SMART objectives. However, to ensure that the objectives and performance targets were aligned with the organizations goals, the management first ensured that they communicated their organizations objectives to the staffs (mean = 4.14). Most (mean = 4.27) of the managers though said that their staffs were capable of preparing their work plans suggesting that they could work with minimum or no supervision at all. These findings disagree with those of the study by Shirley (1998) whose study on why performance contracts had not worked for state owned enterprises established that most of the contracts had failed to improve performance. However, the findings agree with a report by World Bank on the status of their public sector reforms initiatives over two decades later that its support for public sector reforms especially through encouraging performance contracting in developing countries had helped to advance performance especially in public financial management and tax administration. The report noted that public service delivery and accountability had improved about two thirds of the countries that borrowed for public service management. The countries included Ecuador, Georgia, Tanzania, Turkey, and Vietnam. Stilborn (1998) also reported that there had been some significant improvement in the quality of the service delivery in the public sector in Canada since the introduction of public service reforms in the country.

4.2.3 Effects of Performance Monitoring on Quality of Service Delivery

The second objective of the study was to find out the effect of performance monitoring on the quality of service delivery in Nakuru County. The key indicators used to analyze this objective were; availability of regular progress report, continuously updating employees objectives and work plans, regular review of employees skills, identification of performance problems and continuously giving feedback to the key stakeholders. The responses of this variable were rated on a 5 point Likert scale ranging from; 1 = strongly disagree to 5 = strongly agree. These results are presented in Table 4.3.

Table 4.3

Effects of Performance Monitoring on Quality of Service Delivery

Statement	N	Mean	Std. Dev.
Performance progress reporting is regular in our unit	43	4.37	0.44
The management updates employees objectives and work plan	43	3.01	1.95
We carry out regular monitoring of employees skills for improved performance	43	4.28	0.88
I rarely get many complaints nowadays	43	4.41	0.75
The management gives regular feedback on performance	43	4.09	1.217

As shown in Table 4.3, the study established that with a mean above 4, the respondents agreed on the following aspects of performance monitoring that; performance progress reporting was regular, there was regular monitoring of employees skills for purposes of improving performance, there were fewer complaints nowadays and the management gave regular feedback on performance. However, most (mean = 3.01) of the respondents expressed uncertainty over statement 'Management update employees objectives and work plan' suggesting that corrective action was seldom undertaken by the managers in terms of objectivity and procedure. This implied that through follow-up, the managers has been able to ascertain the performance status of the staff but fell short in prescribing remedial action needed. This could have been informed by the need to let the staff do their own self appraisal at the end of a particular period and gauge their own performance against their own set targets. This would eventually improve their level of confidence in themselves when handling tasks and also solving problems. These findings agree with those of the study by Aslam (2010) which established that Performance measurement provides the evidence whether intended results have been achieved or not and to which extent the job holder has done his/her job efficiently. The findings also agree with those of the study by Ogiogio (2004) which had established that good measures of the level of performance are expected to satisfy a number of pre-requisites in terms of quality. It concluded that some of the key qualities expected of performance measures included; the fact that, performance measures must provide evidence of an achievement of objectives, that is, focusing on quantity of output, quality of output and timeliness of output. Performance measures must also be objectively verifiable, plausible, objective oriented and independent.

4.2.4 Effects of Performance Evaluation on Quality of Service Delivery

The third objective of the study was to establish the effect of performance evaluation on the quality of service delivery in Nakuru County. The key indicators analyzed included; conducting annual review on performance, existence of evaluation tools and process for annual review, existence of a pool of knowledgeable personnel to conduct the review and feedback to the key stakeholders. Data was collected using Likert-type scale to assist in the analysis. Means and Standard Deviations were used to describe the variable. The results are shown in Table 4.4

Table 4.4

Performance evaluation and quality of service delivery in Nakuru County

Statement	N	Mean	Std. Dev.
The management conducts annual review	43	4.10	1.47
The management has appropriate evaluation tools in place	43	3.96	1.54
The management carries out effective evaluation processes	43	4.13	0.80
Knowledgeable personnel conduct the review	43	3.34	0.97
Management give feedback to all stakeholders	43	2.40	0.85

It is evident from the findings in Table 4.4 that most (mean = 4.10) of the managements conducted annual reviews and also had appropriate evaluation tools in place (mean = 3.96). There was a feeling among most (mean = 4.13) respondents that the management does carry out effective performance evaluation processes. However, there was uncertainty on whether qualified and knowledgeable personnel were engaged in conducting the annual performance review. It was also evident that the management did not give the feedback to the key stakeholders (mean = 2.40). These findings suggest that though the managements did carry out annual reviews on the performance, there were uncertainties on the efficacy of the reviews. These findings agree with Stilborn (1998) whose study on the federal public renewal in Canada concluded that performance indicators with evaluating and reporting progress may have implied that performance was only going to focus on implementation plans rather than achievement of internal results. The findings also agree with Mitchell and Switzer (2007) study that looked at the success of efforts of measuring effectiveness and performance and that established that performance evaluation helps an organization to meet minimum requirements and receive credit for putting in place a program that is logically designed by using sound practices. Their study also found out that performance brings into view the totality of the program and determines if it is delivering real business value. That, the evaluation helps an organization to dig into issues that matter most and helps to identify areas to focus for improvement and resource allocation. The study however recommended that, for performance assessment to succeed, indicators should be defined so that they can be linked with targets to find out whether they have been achieved.

4.2.5 Effects of Performance contractual incentives on quality of service delivery

The fourth objective of the study was to examine the effects of performance contractual incentives on the quality of service delivery in Nakuru County. The key indicators used to analyze this objective included; existence of fare and clear procedure of identifying and rewarding good performance, existence of fare and clear procedure of recognizing performance delivery, promotion on good performance is done on merit and existence of award of career development on as a reward to good performance. The responses of this variable were rated on a 5 point Likert scale ranging from; 1 = strongly disagree to 5 = strongly agree. These results are presented in Table 4.5

Table 4.5

Effects of Performance contractual incentives on quality of service delivery

Statements	N	Mean	Std. Dev.
Clear procedure of identifying performance	43	4.15	1.12
Clear procedure for rewarding good performance	43	4.24	1.09
Management gives monetary compensation on good performance	43	4.08	1.02
Promotion on good performance	43	4.13	1.25
Career growth and development	43	4.17	1.40

The findings in Table 4.5 indicates that the managements of the Public Units had clear procedures of identifying (mean = 4.15) and rewarding good performance (4.24). The findings also indicate that monetary compensation was given as a form of reward (mean = 4.08) and also well performing staffs were promoted in the Public Units (mean = 4.13). It also emerged from the findings that the units fostered career growth and development incentives as a catalyst for good performance (mean = 4.17). These findings echo those of Darmon (1997) and Locke (2004) who found that through use of incentives, performance could be stimulated. They opined that there were different ways in which performance targets could be linked to compensation schemes, such as, first using bonus plans, commission plans or both. Second, using a single payment level, with multiple payment levels or it can be linked to monetary rewards using a linear relationship and, third, by using an upper level limit, a threshold or both. Finally, performance targets can be set for an agent and the associated rewards can be given not only based on how well the person achieved the targets –

as all the previous design decisions assume–, but also on an evaluation of the circumstances under which the sales person achieved his/her targets. These options are not necessarily mutually exclusive as they all tend to be combined in practice (Sands, 2000 & Zoltners et al., 2006). The study concluded that intrinsic motivation factors are more influential than extrinsic factors for employees. The study recommended that emphasis be placed on the need to supplement traditional attention to pay and promotion as devices to improve motivation that will lead to higher performance.

4.2.6 Quality of Service Delivery in the Public Units

Finally, the study sought to determine the nature of financial control practices in the CBOs in Baringo County. The quality of the services delivered is an important aspect of the performance of these units and thus, the study chose this as the dependent variable. This variable was measured by asking the respondents to respond to various statements describing the quality of services in their units. The status of this variable was rated on a 5 point Likert scale ranging from; 1 = strongly disagree to 5 = strongly agree. These results are presented in Table 4.6

Table 4.6

Quality Service Delivery in the Public Units

	N	Mean	Std. Dev.
There has been a marked increase in the uptake of our services by the public	43	4.09	1.11
Most of the processes are now conducted at a single point as opposed to referring the clients to different offices	43	3.35	1.54
We have a customer care desk where all queries are initially made and the clients routed to the relevant departments	43	4.26	0.93
The timely delivery of our services has improved	43	4.1	0.8
We still receive a lot of complaints from the public with regard to our services	43	2.37	1.05
Use of technology has greatly enhanced our service delivery capabilities	43	3.19	0.84

The results in Table 4.6 suggest that there was a marked increase in the uptake of the services offered by the public units (mean = 4.09). This was attributed to the fact that in most (mean = 3.35) of the public units, the processes were being conducted at a single point as opposed to referring the clients to different offices as was formerly the case. The use of technology in integrating the services had made this possible (mean = 3.19) and greatly enhanced the units service delivery capabilities. The findings also suggest that most (mean = 4.26) units had customer care desks where all queries were initially made and the clients routed to the relevant departments. As a result, the timeliness of delivery in the units had improved (mean = 4.1) and the level of complaints from the public with regard to the services offered by the units had considerably reduced (mean = 2.37). These findings imply that the quality of service delivery in the public units had considerably improved as a result of performance contracting strategies. These findings agree with Culiberg (2010) that ensuring quality delivery of services was essential in achieving client satisfaction. Satisfaction is an immediate response to consumption, while service quality is interpreted as the overall impression of a customer's judgment concerning service provided. So, improving service quality depends on the organization's ability to consistently meet the needs as well as desires of its clients. Organizations can benefit as well as achieving competitive advantage by doing their best to create and maintain service quality, which can lead to customer satisfaction. Research shows that an unsatisfied customer will communicate to nine other people his or her bad experience (Hoffman and Bateson, 2010). This negative word-of-mouth can be very harmful, and can adversely impact the firm's reputation and profitability. The good news for marketers is, however, that if firms satisfactorily resolve customers' problems, previously dissatisfied customers will spread this news to five other people concerning the treatment they have received, and they will be more likely to do business again with the firm than non-complainers. Rizan (2010) pointed out that organizations must realize the strategic importance of quality: continuously upgrading quality is not costly in the long term; rather, it is an investment that will generate greater profits.

4.3 Test of Hypotheses

This section presents the inferential statistics to test the hypotheses. All the four independent variables; Performance Targeting (PT), Performance Monitoring (PM.), Performance Evaluation (PE) and Performance contractual incentives (PCI) and the dependent variable; Service Quality (SQ) is presented in correlation Table 4.7.

4.3.1 Correlation of Performance Contracting and Quality of Service Delivery

Table 4.7

Correlation of Performance Contracting Strategy and Quality of Service Delivery

		Performance Targeting	Performance Monitoring	Performance Evaluation	Performance Contractual Incentives	Service Quality
Performance Targeting	Pearson Correlation	1	.039	.138	.181	.475
	Sig. (1-tailed)		.802	.096	.246	.001
	N	43	43	43	43	43
Performance Management	Pearson Correlation	.039	1	.245	.101	.338
	Sig. (1-tailed)	.802		.107	.118	.000
	N	43	43	43	43	43
Performance Evaluation	Pearson Correlation	.138	.245	1	.194	.560
	Sig. (1-tailed)	.096	.107		.212	.000
	N	43	43	43	43	43
Performance Contractual Incentives	Pearson Correlation	.181	.101	.194	1	.466
	Sig. (1-tailed)	.246	.118	.212		.015
	N	43	43	43	43	43
Service Quality	Pearson Correlation	.475	.338	.560	.466	1
	Sig. (1-tailed)	.001	.000	.000	.015	
	N	43	43	43	43	43

* Correlation is significant at the 0.05 level (1-tailed).

4.3.1 Performance Targeting and Management of Service Quality

The study sought to determine the effect of performance target setting on the correlation cross sectional survey of quality of service delivery in Nakuru County. This relationship was tested under the hypothesis **$H_0$1: Performance target setting does not significantly affect quality of service delivery**. The results as shown in Table 4.7 indicate that there was a strong positive correlation ($r = 0.475$, $p < 0.05$) between performance targeting and management of service quality. That therefore indicated that performance targeting significantly affected service quality in the Public Units in Nakuru County. Hence, the null hypothesis was rejected and it was concluded that there is a significant relationship between performance targeting and management of service quality. When the Public Units recognize and enhance performance targeting in the context of performance contracting, there will be a positive improvement in the management of service quality offered to customers. This finding agrees with Greiling's (2006) study which found out that performance contracting is seen as a tool for improving public budgeting, promoting a better reporting system and modernizing public management while enhancing efficiency in resource use and effectiveness in service delivery

4.3.2 Performance Monitoring and Management of Service Quality

The study sought to find out the effect of performance monitoring on the quality of service delivery in Nakuru County. This relationship was tested under the hypothesis **$H_0$2: Performance monitoring does not significantly affect quality of service delivery.** The results in Table 4.7 indicate that a moderate positive relationship ($r = 0.338$, $p < 0.05$) existed between performance monitoring and service quality, thus, suggesting that performance monitoring significantly affected service quality in the Public Units in Nakuru County. Hence, the null hypothesis was rejected. When the Public Units recognizes and enhances performance monitoring in the context of performance contracting, there will be a positive improvement in service quality offered to customers. This finding is supports Mecca's (1998) study which established that outcomes monitoring has long been important to industry and health care because it provides an excellent and efficient mechanism for improving productivity and care. Performance improvement can increase revenues by improving service delivery, reducing costs, and increasing client satisfaction (Deming 1986).

4.3.3 Performance Evaluation and Management of Service Quality

The study sought to establish the effect of performance evaluation on the quality of service delivery in Nakuru County. The relationship between the two variables was tested under the hypothesis **$H_0$3: Performance evaluation does not significantly affect quality of service delivery.** The results shown in Table 4.7 suggest that a strong positive relationship ($r = 0.560$) existed between performance evaluation and service quality indicating that service quality in the Public Units in Nakuru County improved significantly when performance evaluation was carried out. Hence, the null hypothesis was rejected and it was concluded that there was a significant relationship between performance evaluation and management of service quality. When the Public Units recognizes and enhances performance evaluation in the context of performance contracting, there will be a positive improvement in service quality offered to customers. This finding supports Kanfer and Ackerman (2005) study which established that performance of individuals has its great importance both for organizations and from individual employees. Many researchers believe that higher-performance leads to the accomplishment of duties and tasks, which ultimately result in more satisfaction levels, feeling and developing self-efficacy and mastery among employees.

4.3.4 Performance Contractual Incentives and Management of Service Quality

The fourth objective of the study was to establish the effect of performance contractual incentives on the quality of service delivery in Nakuru County. The relationship between the two variables was tested under the hypothesis **$H_0$4: Contractual incentives do not positively affect significantly of service delivery**. The results in Table 4.7 suggest that there was a strong positive correlation ($r = 0.466$, $p < 0.05$) between performance evaluation and service quality indicating that service quality in the Public Units in Nakuru County did significantly improve when performance contractual incentives were used on the staffs. Hence, the null hypothesis was rejected and it was concluded that there was indeed a significant relationship between performance contractual incentives and service quality. This finding is consistent with McCartan-Quinn and Carson (2003) who found out that formal control systems and procedures in small service firms tend to be either non-existent or incomplete, making a satisfied employee’s own initiatives in the service processes and his/her own motivation to deliver customized services especially important.

4.3.5 Combined effect of Components of Performance Contracting on Service Quality

The fifth hypothesis of the study was tested under the null hypothesis **$H_0$5: The combined components of performance contracting strategy do not significantly affect quality of service delivery.** The study used a regression model to test the hypothesis. The results of the analysis are presented in Tables 4.8

Table 4.8

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.785	0.616	0.559	0.11061

The findings in Table 4.8 shows that the relationship between the dependent variable and all the independent variables pooled together is significant with a value obtained for R, which is the model correlation coefficient being equal to 0.785 and was higher than any zero order value in Table 4.8. This indicates that the model improved when more variables are incorporated when trying to analyze the effect of performance contracting on the quality of service delivery in public units in Nakuru County. Consequently, the coefficient of determination R^2 was used to determine how much of the dependent variable, service quality, was explained by the independent variables. In this case, the R Squared was 0.616 indicating that up to 61.6 % of the variation in service quality could be explained by the performance contracting variables identified in this study.

In order to determine which of the independent variables was more important when it came to the effect of performance contracting on the quality of service delivery in public units in Nakuru County, the beta value was used. The results are given in Table 4.9 which also provides a summary of the multiple linear regression analysis correlation coefficients.

Table 4.9

Multiple linear regression results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.227	.207		.994	.415
	Performance targeting	.251	.040	.242	3.696	.001
	Performance monitoring	.138	.073	.128	1.894	.000
	Performance evaluation	.366	.060	.352	4.572	.000
	Performance contractual incentives	.225	.025	.211	5.320	.026

a Dependent Variable: service quality

It can be deduced from the findings in Table 4.9 that the most important factor in determining the effect of performance contracting on the quality of service delivery in public units in Nakuru County was Performance Evaluation ($\beta = 0.352$). Other variables were also ranked in order of importance, thus, Performance target setting ($\beta = 0.242$), Performance contractual incentives ($\beta = 0.211$) and Performance monitoring ($\beta = 0.211$) respectively. These findings indicate that the dependent variable, that is, the quality of service delivery in public units in Nakuru County, would change by a corresponding number of standard deviations when the respective independent variables change by one standard deviation. These findings imply that performance contracting was a critical factor when determining the quality of service delivery in public units in Nakuru County. Therefore, performance contracting needed to be emphasized in the public units in order to achieve better quality in the services offered. The tolerances of values for all the variables were also found to be way above zero implying that multicolleniarity did not have a significant effect on the results in the regression model. Therefore, the emergent linear model is;

Quality of Service Delivery = 2.227 + 0.251 Targeting + 0.138 Monitoring + 0.366 Evaluation + 0.225 Incentives.

Simply put;

$AP = 2.227 + 0.251T + 0.138\ M + 0.366\ E + 0.225\ I$

These findings agree with Ahmad and Zubi (2011) study which found out that well instituted performance contracting strategies had a positive effect on the quality of service delivery. Through well thought out strategies, public service organizations could be reasonably expected to achieve better results in meeting their client needs (Zhangwei, 2012).

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of the Findings

The aim of this study was to analyze the effect of performance contracting on service quality by comparing the devolved and non-devolved functions of government in Nakuru County. The study established the following findings which are summarized below;

5.1.1. Effect of performance target setting on management of service delivery

The first objective of the study was to determine the effect of performance target setting on the quality of service delivery in Nakuru County. The findings revealed that performance targeting significantly affected the quality of service delivery in the public units. The employees working in Public Units did not participate in performance target setting including setting SMART targets, they did not know how to prepare work plan, and they also lacked resources at their disposal to enhance performance in their respective units. Secondly, performance targeting positively affected service quality in the Public Units in Nakuru County accepting the hypothesis that Performance target setting positively affect quality of service delivery. When the Public Units recognizes and enhances performance targeting, there will be a positive improvement in service quality which was measured in terms of service competence, service courtesy, service tangibility, service reliability and service responsiveness.

5.1.2. Effect of performance contracting on the quality of service delivery

The second objective of the study was to find out the effect of performance monitoring on the quality of service delivery in Nakuru County. The study established that performance monitoring significantly affected service quality in the Public Units in Nakuru County that Public Units in Nakuru County did have regular performance progress report, regular monitoring of employees skills for purposes of improving performance was done, there was improved performance and the management did not give regular feedback. When the Public Units recognizes and enhances performance monitoring, there will be a positive improvement in service quality which was also measured in terms of service competence, service courtesy, service tangibility, service reliability and service responsiveness.

5.1.3. Effect of performance evaluation on the management of service quality

The third objective of the study was to establish the effect of performance evaluation on the quality of service delivery in Nakuru County. The study established that the management of Public Unity failed to conduct the annual review. They also did have effective evaluation tool and process in place which they could use to conduct the annual review. The management also had qualified and skilled personnel who could conduct the review. The management also was willing to give the key stakeholders feedback about the results of the annual review. Secondly, performance evaluation positively affected service quality in the Public Units in Nakuru County accepting the hypothesis that Performance evaluation positively affected quality of service delivery. When the Public Units recognizes and enhances performance evaluation, there will be a positive improvement in service quality which was also measured in terms of service competence, service courtesy, service tangibility, service reliability and service responsiveness.

5.1.4. Performance contractual incentives and the management of service quality

The fourth objective of the study was to examine the effects of performance contractual incentives on the quality of service delivery in Nakuru County. The findings revealed that the units did promote employees based on their good performance, a practice which was not based on performance management and contracting. The units did award on career growth and development for good performance based on merit. Secondly, performance contractual incentive did positively affected service quality in the Public Units in Nakuru County. Even if the Public Units recognizes and enhances performance contractual incentive, there will be no positive improvement in service quality components like; competence, service courtesy, service tangibility, service reliability and service responsiveness will never improve.

5.2 Conclusions

The aim of this study was to analyze the effect of performance contracting on service quality by public units in Nakuru County. Performance target setting positively affect quality of service delivery. The study established that performance targeting positively affected service quality delivery in the Public Units in Nakuru County. When the Public Units recognizes and enhances performance targeting, there will be a positive improvement in service quality which was measured in terms of service competence, service courtesy, service tangibility, service reliability and service responsiveness. Performance monitoring positively affect quality of service delivery. The study established that performance monitoring positively affected service quality delivery in the Public Units in Nakuru County.

When the Public Units recognizes and enhances performance monitoring, there will be a positive improvement in service quality which was also measured in terms of service competence, service courtesy, service tangibility, service reliability and service responsiveness.Performance evaluation positively affects quality of service quality delivery. The study establish a strong positive correlation between performance evaluation and service delivery indicating that performance evaluation significantly affected service delivery in the Public Units in Nakuru County Government. When the Public Units recognize and enhance performance evaluation, there will be a positive improvement in service quality delivery which was also measured in terms of service competence, service courtesy, service tangibility, service reliability and service responsiveness. Contractual incentives positively affect quality of service delivery. The study establish a week negative correlation between performance contractual incentives service quality delivery indicating that performance contractual incentives did not significantly affected service quality delivery in the Public Units in Nakuru County compared to performance targeting, monitoring and evaluation. Even if the Public Units recognizes and enhances performance contractual incentive, there will be no positive improvement in service quality components like; competence, service courtesy, service tangibility, service reliability and service responsiveness will never improve..

5.3 Recommendations

5.3.1 Recommendation for Practice and Policy

Based on the findings from the study, the following recommendations are important as far as analysis of the effect of performance contracting on service quality by comparing the devolved and non-devolved functions of government in Nakuru County.

First, the study recommends that Public Units in Nakuru County should improve performance monitoring by; first carrying out regular performance monitoring for purposes of producing periodic progress reports as an indicator of on the general performance of the units. Secondly, they should closely monitor employees' skills so that they would be able to tell whether the exiting skills were adequate to deliver the expected performance. This can be done by carrying out regular skills audit which is an important Human Resource exercise in organizational development. Third, feedback on the progress report is important for selecting strategies which can be used to improve performance. Such feedback can be given to employees, head of departments or contracted consultants assigned to develop and implement strategies that can improve performance in these units.

Second, the study recommends that the management of the Public Units should make sure that they conduct annual review to help them know clearly whether employees met the objectives of performance contracting or not. This can be done by either hiring the services of consultants specializing in performance contracting to independently conduct the annual review or establish a division within the Human Resource Department in Public Service whose responsibility is to conduct annual review. The review experts will use their expertise to independently develop effective review tools and also working review process. The results of review must be shared with the key stakeholders with a view of opening a discussion forum for performance improvement in the Public Service.

Finally, the study therefore recommends that the Public Units should develop fair and clear procedures of identifying, rewarding and recognizing good performance. Such a practice will enhance contractual performance and also motivate employees to work effectively. Performance contracting should also be a tool of encouraging career growth and development as a key incentive that motivate employees for improved performance.

5.3.2 Suggestions for Further Studies

A study on the intervening effect of employees' job satisfaction on performance contracting and service quality delivery to the Public Units County Governments in Kenya should be conducted. This is because the study did not concentrate on employees' job satisfaction which is likely to have a moderating effect on both performance contracting and service quality delivery. The findings from this study will shed more light on how far employees job satisfaction affect their participation on performance contracting and its multiplying effect on management of service quality.

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APPENDICES

Appendix I: Managers Questionnaire

Part I: Respondents Demographic Characteristics

1. What is the name of the Public Unit you work for?......................................
2. When was the unit established? ………………………………………………
3. What type of services/products do you offer …………………………………..
4. Please indicate your position in the Unit…………………...............
5. Indicate your gender M F
6. For how many years have you worked?...
7. What is your level of education? O-Level A-Level Degree Ma PhD

Part II: Performance Contracting Strategy

Kindly indicate by ticking any of the following as per your agreement: 1 – **SA** – Strongly Agree, 2 – **A** – Agree, 3 – **NS** – Not Sure, 4 – **D** – Disagree, 5 **SD** – Strongly Disagree

a) **Performance Targeting**	**SA**	**A**	**NS**	**D**	**SD**
Employees are always involved in performance target setting					
Employees know how to set SMART targets					
Employees are involved during the process of formulating departmental work plans					
Employees know how to prepare work plans					
Requisite resources are allocated as and when they are required					
b) **Performance Monitoring**	**SA**	**A**	**NS**	**D**	**SD**
There is regular performance progress report					
Management regularly updates employees objectives and work plans					
Management regular reviews of employees skills					
1Identifying performance problems					
Management gives feedback to the performance contracting stakeholders					

c) Performance Evaluation	**SA**	**A**	**NS**	**D**	**SD**
Management conducts annual reviews on employees performance					
There is existence of evaluation tools for annual reviews					
There is existence of effective evaluation process for annual review					
Personnel conducting annual review are knowledgeable					
There is feedback to performance contracting stakeholders on findings from annual review					
d) Performance Contractual Incentives	**SA**	**A**	**NS**	**D**	**SD**
There is a fair and clear procedure of identifying good performance					
There is a fair and clear procedure of rewarding good performance					
There is a fair and clear procedure of recognizing performance					
delivery					
The unit award Promotion on good performance based on merit					
The management involves all the stakeholders in providing incentives to good performance					

Any other (please write in the space provided)

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…………………………………………………………………………………………………
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Part III: Service Quality

Kindly indicate by ticking any of the following as per your agreement on the level of service quality in the unit where you work: 1 – **SA** – Strongly Agree, 2 – **A** – Agree, 3 – **NS** – Not Sure, 4 – **D** – Disagree, 5 **SD** – Strongly Disagree

Statements	**SA**	**A**	**NS**	**D**	**SD**
There has been a marked increase in the uptake of our services by the public					
Most of the processes are now conducted at a single point as opposed to referring the clients to different offices					
We have a customer care desk where all queries are initially made and the clients routed to the relevant departments					
The timely delivery of our services has improved					
We still receive a lot of complaints from the public with regard to our services					
Use of technology has greatly enhanced our service delivery capabilities					

Any other (please write in the space provided)

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Appendix II: Specimen Introductory Letter to the Respondents

Gladys A. Pkemei
Egerton University,
P.O. Box 1335
Nakuru

Dear Sir/Madam

I am a postgraduate student pursuing a Masters of Business Administration of Egerton University. I am currently carrying out a research project on **“Effect of Performance Contracting Strategy on service Quality in Public Units in Nakuru County.”**

The purpose of this questionnaire is to gather information from employees working in both the devolved and non –devolved government functions in Nakuru County. You have been selected as one of the respondents with that kind of knowledge and experience which will assist in providing the necessary data for the study. My supervisors and I assure you that the information supplied will be used for research purposes only and your name and views will be treated with confidentiality.

Thank you for your cooperation.

Gladys A. Pkemei

MBA student

Appendix II: List of Public Units in Nakuru County

Unit
Devolved Unit
1. Public Service Management
2. Environment, Water and Natural Resources
3. Lands, Physical planning and Housing
4. Trade, Co-operative, Tourism and Industrialization
5. Water, Roads and Infrastructure
6. Education, Youth, Culture and Social Services
7. Finance, Economic Planning
8. Public Health
9. Agriculture, Livestock and Fisheries
Non-Devolved Units
1. Education
2. Kenya Police
3. Administration Police
4. Kenya Prison
5. Immigration
6. National Treasurer
7. Mining and Geology
8. Lands and Physical Planning
9. Social Services
Unit
Parastatal Units
1. Kenya Power and Lighting Company
2. Pyrethrum Board of Kenya
3. Kenya Pipeline
4. Kenya Postal Corporation
5. Kenya Revenue Authority
6. Kenya Agricultural Research Institute

7. Cereals Board of Kenya
8. Kenya Creameries Co-operative
9. Kenya Forest
10. Agricultural Finance Corporation
11. National Hospital Insurance Fund
12. National Social Security Fund
13. Kenya Bureau of Standards
14. Geothermal Development Company