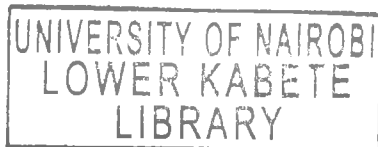


**IMPLEMENTATION OF PERFORMANCE CONTRACTING AT  
THE UNIVERSITY OF NAIROBI**

**BY**

**NANCY WANGUI THAIRU**



**A RESEARCH PROJECT SUBMITTED IN PARTIAL  
FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF  
THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION  
(MBA),**

**SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI**

**OCTOBER 2011**

## DECLARATION

I declare that this Research Project is my own original work and has not been presented for award of a degree in any University.

Signed  Date 14<sup>th</sup> November 2011

**Thairu Nancy Wangui**

**D61/8830/2006**

This Research Project has been submitted for examination with my approval as the University supervisor.

Signed  Date 16-11-2011

**Dr. Jackson Maalu**

Department of Business Administration,

School of Business,

University of Nairobi.

## **DEDICATION**

This Research Project is dedicated to my loving family for walking with me since I started my studies. Without your patience, support, encouragement and prayers I could not have come this far.

## ACKNOWLEDGMENT

I wish to acknowledge with gratitude the God All Might who gave me the strength to carry out these studies and the many people who made this Research Project a reality.

I appreciate my supervisor Dr. Jackson Maalu whose encouragement and wise guidance helped shape an initial idea into a final product. My gratitude also goes out to all respondents who availed themselves amidst their busy schedule to be interviewed for this research to be a success.

And finally my special and sincere thanks goes to my colleagues especially Christine whose encouragement is immeasurable. The Director of Kenya AIDS Vaccine Initiative (KAVI) for his unwavering support throughout my studies, I greatly appreciate the material support I have received throughout for my studies.

## ABSTRACT

This research was carried out with two main objectives namely; first to establish the Performance Contracting implementation process at the University of Nairobi and secondly establish what factors have influenced this process. The research adopted a case study design and data collected was then analyzed using content analysis.

The research findings are that the University of Nairobi has tried to strictly follow the Performance Contract guideline as set out by the Kenyan Government through the Performance Contracting Department. The University management from an early stage embraced this new policy and has been at the forefront of its implementation. That the strategic plan, organization structure and culture have supported the smooth implementation of this process. Intensive staff training and staff sensitization has greatly enabled the process also by creating both awareness and ownership of the process.

Limited resources especially financial were found to also influence and to some extent limit the rolling out of the process. This is due to the fact that the University is a public institution which is largely controlled and regulated by the government to serve the Kenyan public. The other factor is the intensity of the implementation process which has increased the workload of a limited workforce, especially during the data collection stage which is continuous due to the quarterly report.

The UoN management has tried to address these challenging factors by initiating various income generating activities to make up for the funding shortfall. A fully pledge secretariat has also been set up to coordinate the Performance Contract implementation process and keeping it in tune with the organization strategic plan. A management information system has been designed and implemented to aid the staff easily upload data. The conclusion drawn from this research is that the Performance Contract process has greatly improved the operations of this institution. It has enable the staff remain more focused and be result oriented.

# TABLE OF CONTENTS

<b>CHAPTER ONE: INTRODUCTION .....</b>	<b>1</b>
1.1 Background of the Study.....	1
1.1.1 The Concept of Performance Contracting .....	2
1.1.2 Universities in Kenya.....	4
1.1.3 Overview of the University of Nairobi .....	5
1.2 Statement of the Research Problem .....	7
1.3 Research Objectives .....	10
1.4 Value of the Research .....	10
<b>CHAPTER TWO: LITERATURE REVIEW.....</b>	<b>12</b>
2.1 Introduction .....	12
2.1.1 Performance Measurements in Organizations .....	13
2.1.2 The Concept of Performance Contract .....	15
2.1.3 Types of Performance Contracts.....	17
2.1.4 Fundamental Preconditions for Performance Contracts .....	18
2.2 The Rationale for Performance Contracting .....	21
2.3 History of Performance Contracting in Kenya.....	23
<b>CHAPTER THREE: RESEARCH METHODOLOGY .....</b>	<b>26</b>
3.1 Introduction .....	26
3.2 Research Design.....	26
3.3 Data Collection.....	27
3.4 Data Analysis .....	27
<b>CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION .....</b>	<b>29</b>
4.1 Introduction .....	29
4.2 University of Nairobi Profile.....	29
4.3 Implementation Process of the Performance Contracts .....	32
4.3.1 Contracting Units .....	32
4.3.2 Negotiation Process .....	34
4.3.3 Evaluation Process .....	35

4.4	Factors that Influence the Performance Contract Implementation Process .....	36
4.4.1	Strategic Plan .....	36
4.4.2	Organization Structure and Culture .....	37
4.4.3	Leadership and Management Style.....	37
4.4.4	Technology and ISO Certification.....	38
4.4.5	Financial and Other Resources .....	39
4.4.6	Industry and Internal Competition .....	39
4.4.7	Communication and Training .....	40
4.4.8	Operational Factors.....	41
4.5	Discussion of Findings .....	42
<b>CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS.</b>		<b>45</b>
5.1	Introduction .....	45
5.2	Summary of the Research Findings .....	45
5.3	Conclusion.....	47
5.4	Recommendations .....	48
5.5	Limitations of the Study.....	48
5.6	Suggestions for Further Research .....	49
<b>REFERENCES.....</b>		<b>50</b>
<b>APPENDIX I: INTERVIEW GUIDE .....</b>		<b>54</b>

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

One of the main challenges that face the public sector the world over is achieving quality and timely service delivery to citizens. This challenge among others is also widely experienced by the government bodies due to the very nature of them being viewed as an extension of the government. The public sector in Kenya has undergone tremendous reforms since attainment for self-rule in the early sixties. The reforms were started immediately after independence with sessional paper no. 10 of 1965 on African Socialism and its application to planning in Kenya outlining the first institutional framework for reforms. Due to the importance and the central role that the public sector plays in the government's primary development goal the Kenya government has continuously reviewed and evaluated the public sector performance and instituted reforms as necessary. The Kenya government acknowledges that over the years there has been poor performance in the public sector, especially in the management of public resources which has hindered the realization of sustainable economic growth (GOK, 2005)

In the early nineties the Kenya Government responded to public service delivery challenges by formulating and implementing Public Sector Reforms (PRS). The first phase of the program focused on cost containment under which a voluntary early retirement scheme was implemented. The second phase was primarily focused on rationalization of government ministries/departments to optimize the size of civil service for effective performance of the government's core functions. Upon completion of both

phases of the reform together with a donor initiated embargo on recruitment the core civil servants size reduced from 272,000 in 1992 to 191,670 in 2003 (GOK, 2004). As quoted by Kobia and Mohammed (2006) “While there was a reduction in the size of the civil service of about 30%, it was noted that productivity and performance in the public service was not improved as expected (Opiyo, 2006)”. This led to the third phase of the public sector reforms initiatives targeting performance improvement and management guided by the Economic Recovery Policy Direction (DPM, 2004). As a strategy for improving service delivery to Kenyans the GOK adopted the performance contracting (PC) being one element of the broader public sector reforms aimed at improving efficiency and effectiveness, while reducing the total costs.

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

Performance contract is a management tool within the wider performance management theory. Armstrong (2009) defines performance management as a systematic process for improving organizational performance by developing the performance of individuals and teams. The concept of performance management incorporates some aspects and approaches of management by objectives and performance appraisal but it also includes a number of significantly different features. Performance management involves continuous dialogue and communication between managers and the people they manage. It is therefore a strategic and integrated approach to delivering sustained success to the organization by improving the staff contribution and developing the capabilities of teams and individuals. According to Armstrong and Baron (2004) the main purpose of

performance contracting is ensuring delivery of quality service to the public in a transparent manner for the survival of the organization.

Performance contract system originated from France in the late nineteen sixties. It was later developed with great elaboration in Korea and Pakistan and thereafter it was introduced in India (OECD, 1997). Since then this practice has been rolled out in many countries due to the huge benefits realized in form of improved and efficient service delivery to members of the public. The debate is still ongoing between scholars and human resources practitioners on the definition of performance contract however they all seems to agree that performance contracting is a branch of management science referred to as Management Control Systems (Kobia and Mohammed, 2006). It provides managers with information intended to improve performance of their jobs and assist the organization in developing and maintaining viable patterns of behavior (Trevedi, 2008). Kobia and Mohammed (2006) define a performance contract as a freely negotiated performance agreement between Government, organization and individuals on one hand and the agency. GOK (2007), a performance contract is a management tool for measuring negotiated performance targets. A performance contract (PC) is freely negotiated between the government, acting as the owner of public agency on one hand and the agency management on the other. The PC specifies the mutual performance obligations, intentions and responsibilities of the two parties (GOK, 2007).

The policy decision to introduce Performance Contracts in the management public resources by the Kenya government was conveyed in the Economic Recovery Strategy

for Wealth and Employment Creation (2003-2007). Performance contracting process in Kenya is currently guided by the Sector Performance Standards (SPS) 2009- 2030 circulated by the Office of the Prime Minister, Performance Contracting Department (PCD). Armstrong and Baron (2004) argue that the manager and the staff should regularly evaluate the staff member's performance and the achievement of the objectives in the work plan. All government agencies are required to submit quarterly performance reports to designated agencies by the end of the month following the end of a quarter. Performance evaluation is the culmination of the process of performance contracting and is carried out by independent experts drawn from outside the public service, for the purpose of ensuring objectivity and enhancing the integrity of the results. The independence, objectivity and neutrality of those evaluating the performance of the public agencies is one of the distinguishing feature of the Kenyan PCs (Trivedi, 2009).

### **1.1.2 Universities in Kenya**

The Royal Technical College of East Africa opened in 1956 as the first Institution for Higher Education. In 1961 it as renamed the Royal Technical College of Nairobi and became the University College of Nairobi in 1963. On 20<sup>th</sup> May 1964, the Royal College Nairobi was renamed University College Nairobi as a constituent college of inter-territorial, Federal University of East Africa, and henceforth awarded degrees of the University of the East Africa and not London as was the case before. In 1970, the University College Nairobi transformed into the first national university in Kenya and was renamed the University of Nairobi (UoN, 2011).

The Kenyatta College became a constituent college of the UoN in the year 1972 offering teachers training. Due to the increased demand for higher education in the country the college was elevated to full-fledged university in the year 1985 (CHE, 2011). The pressure on the Government to increase enrollment at the university level was such that it became necessary to establish more public universities. Moi University was therefore established in 1984, Egerton university college was elevated to full university status in 1987 (CHE, 2011). Other public universities established thereafter are; Jomo Kenyatta University of Agriculture and Technology (1994); Maseno university (2000); and Masinde Muliro University of Science and Technology established in 2007 (CHE, 2011).

Kenya has thirteen private universities of which seven have been awarded charters while six have been granted letters of interim authority according to the Commission of Higher Education. The public Universities have enrolled about 80% of students while the private universities take up the remaining 20% of the student population (CHE, 2011). For the academic year 2007/8 enrolment in Kenyan Universities had risen to 97, 107 with the UoN constituting 26.3%. The University managements especially for the public institutions have faced various challenges as they try to re-position their institutions in the highly competitive industry.

### **1.1.3 Overview of the University of Nairobi**

The University of Nairobi (UoN) is a body corporate created by the University of Nairobi Act Chapter 210, (1970) being the first public university in Kenya. This Act was repealed and replaced by the University of Nairobi Act (1985), which established the current structure of the university. In addition the University of Nairobi Council has passed thirty four statutes cited as the UoN statutes, 1991 that elaborates the structure and operation of

the university. The UoN is headed by a chancellor who according to the Act is either the president of Kenya or his appointee. The university council headed by a chairman is the supreme authority and policy making body of the university (UoN Act, 1986). The council is charged with the responsibility of governance, control and administration of the university. The council formulates policies, creates faculties and approves the appointments of some cadre of university staff (UoN, 2011). The Vice Chancellor appointed by the chancellor on advice of the council is the Chief Executive Officer and accounting officer of the UoN. He is the academic and administrative head of the university, assisted by the four Deputy Vice Chancellors (DVCs) who are appointed by the council in consultation with the chancellor.

The four DVCs are namely; for Administration and finance, Academic affairs, Student Affairs and Research, Production and Extension. The Director of students' welfare authority (SWA) also falls under the office of the Vice Chancellor. The VC's office is charged with formulating the strategic management plan of UoN and is also responsible for policy matters, planning, coordination, public relations, fundraising and general development of the University. The DVC (Administration and Finance) is responsible for all administrative and financial affairs at the UoN. The DVC (Academic Affairs) is responsible for syllabus development, regulations, admissions, examinations, research, post graduate studies and academic staff training. The DVC (Students Affairs) is in charge of handling all issues affecting students except academics. The DVC (Research, Production and Extension) is in charge of all research programs carried out by the UoN. The Director of SWA handles student's accommodation and catering needs. The

university senate chaired by the Vice Chancellor is responsible for the administration and management of academic programs (UoN, 2011).

The University Management Board (UMB) chaired by the vice chancellor is responsible for the co-ordination of university and college development plans, efficient management of resources both human and material, initiation of policies, and handling matters that relate to the general management of the entire university. The UMB is constituted by the vice chancellor, the deputy vice chancellors, and the principals of constituent colleges, the UNES Managing Director and the administration registrar as its secretary. The College Management Board (CMB) is charged with the administrative functions of the respective college. In view of the rapid expansion and complexities in administration, the University underwent a major restructuring in 1983 resulting in decentralization of the administration, by creation of six campus colleges headed by principals. The number has since increased to seven and in addition the Kenya Polytechnic University is a constituent College. The South –Eastern University Constituent College is the latest college of UoN situated in Kitui (UoN, 2011). In order for the UoN to meet the enormous expectations of its various stakeholders, internal and external clients it has embraced modern management techniques one of which is the performance contracting.

## **1.2 Statement of the Research Problem**

Performance contracting has been implemented by governments the world over with varying degrees of success. OECD (1999) notes that the optimal contractual form of a performance contract is country and cultural specific, depending on factors such as trust,

type of transaction, objectives, legal and administrative limitations, risk management and institutional history. This view is supported by Kobia and Mohammed (2006) who observes that the socio-cultural, economic and political systems development levels in France are not only different but unique from those in Kenya. The performance contract concept has thus been implemented in many developed and developing countries each with an aim of improving the public sector performance. Every country has adapted and domesticated the concept to serve their purpose and they all have had different experiences and obtained varied results. (Obong'o, 2009) notes that to improve performance, the Kenya Government has been undertaking a number of reform measures in public institutions such as the introduction of performance contracts in the public universities.

The University of Nairobi (UoN) is the largest public university in Kenya in terms of student population of about forty thousand and the diverse range of academic programs offered with over forty undergraduate programs and over three hundred at postgraduate level (UoN strategic plan 2008-2013). It is one of the seven public funded Universities that have embraced the performance contracting strategy having been included in the program from the financial year 2005/6. Due to its large size the researcher is interested in studying how the institution has implemented the Performance Contracting process and especially how it has cascaded it downward to the lowest management levels. Due to the complexity of its administrative and management structure the study will also strive to find out the main factors that that have influenced the PCs implementation process. Despite the complexity of the University with seven colleges, three faculties, over sixty

departments, about seventeen schools and seven institutes (UoN, 2011) it has been able to be ranked amongst the top ten performers during the annual ranking as reflected by the audited scores released in June 2011 for the financial year 2009/2010 where the UoN was ranked an impressive fourth overall winner (DN 17/06/2011).

Local studies have been conducted on performance contracting where Korir (2006) conducted a study on the impact of performance contracting in state corporations, the case of East Africa Portland cement; Kiboi (2006) dealt with management perception of performance contracting in state corporations and Othieno (2006) studied the process and experience of implementing performance contracts at Kenya power lighting company limited. Kiboi (2006) established that performance contracts helps in clarifying vision and mission of an organization, it has enabled organizations to meet their performance targets and has also helped them keep pace with performance emerging trends. Korir (2006) concluded that performance contracting in state owned enterprises was found to be positively and significantly related to firm profitability and operational efficiency. None of these studies however tried to document this process in a tertiary institution like the University of Nairobi. Given that there are differences in environments and circumstances under which performance contracting has been practiced in the private and public sectors in developing countries like Kenya, it is therefore important to study the process through which the University of Nairobi has implemented performance contracting.

### **1.3 Research Objectives**

The objectives of this study were to;

- i. Establish the implementation process of Performance Contracting at the UoN,
- ii. Establish the factors that have influenced the implementation process.

### **1.4 Value of the Research**

The performance contracting is a new concept in Kenya and still at infancy level. This study would therefore be of interest to the Kenya government especially the performance contracting department (PCD) in getting to understand the internal process of PCs at the public Universities using UoN as case study. The findings could influence future policies on performance contracting and form a basis of improving efficiency in management of state corporations.

The study would also add value and be of interest to the UoN management in helping them reflect on the current process and to improve where it might not be up to standard. It would also be usefully for management in comparing performances of the various colleges and finding out the reasons why some colleges are better performers than others. The management may also find out that some colleges are a head in the cascading process to the lowest levels than others and why. These findings could lead to improving the process and performance in the entire university. Other public universities managements may also use the study to compare and contrasts their processes with that of the UoN.

The study will contribute greatly to the theory of performance contracting and its adaptation by tertiary institutions in Kenya. It would therefore be of interest to academicians, scholars, other students and researchers' interested or trying to understand the concept of performance contracting and its implementation process as they gauge its effectiveness.



## CHAPTER TWO: LITERATURE REVIEW

### 2.1 Introduction

Performance contracts are management tools used within the public sector to define responsibilities and expectations between parties to achieve mutually agreed results (Armstrong, 2009). According to Shirley (1998), performance contracting assumes that government's objectives and targets can be maximized and performance improved by setting achievable targets that take into account the constraints faced by the management. Nellis (1989) defines performance contracts as negotiated agreements between government as owners of a public enterprise, and the enterprise itself in which the intentions, obligations and responsibilities of the two parties are freely negotiated.

Shirley (1998) further notes that performance contracts in the public sector seems a logical solution since similar contracts have been successful in the private sector in shifting them from ex ante control to ex post evaluation, thus giving managers the autonomy and incentives to improve efficiency and thereafter holding the managers accountable for results. Performance contracting is also intended to facilitate performance evaluation based on results instead of conformity with bureaucratic rules and regulations. The setting of specific performance targets, in a format that can be monitored, is intended to provide a basis for evaluating performance and improving accountability in the public enterprise (GoK, 2004).

Performance contracting has thus been used to instill discipline in the public service and also transform the organizations from just being public administration units to result

oriented organizations. The concept of performance Contracting was first introduced in Kenya in the management of state corporations in 1989. A parastatal Reform Strategy Paper, approved by cabinet in 1991, was the first official recognition of the concept of performance Contracting as it was part of the policies that were recommended to streamline and improve the performance of State Corporations. A few state corporations namely Kenya Railways, National Cereals and Produce Board, Kenya Airways, Mumias Sugar Company and the defunct Kenya Posts and Telecommunications attempted to develop variants of performance contracts. Most of these were not implemented and those that were implemented were found to be unsuccessful.

### **2.1.1 Performance Measurements in Organizations**

Performance measurement systems succeed only when the organization's strategy and performance measures are in alignment. Accountability for performance is a critical factor in any successful performance measurement criteria. PBMSIG (2001) cites the inconsistent application of policies, procedures, resources, and /or consequences within the organization as undermining the accountability environment by weakening the perceived organizational commitment and credibility. Organizations performance is measured through different perspectives since performance is defined differently by various disciplines. Studies carried out by Marr (2004), Kaplan and Norton (2001) and Kennerly and Neely (2003) indicates that performance measurement systems have evolved over the years from the traditional uni-dimensional, financial focused systems to strategic integrated systems that are flexible to drastic changes in the environment.

This view is shared by Ghalayani and Noble (1996) when they note that the evolution of integrated performance measurement system and the changes take into consideration the fast changing business environment by incorporating strategic issues in the performance measurements. For performance measurement system to therefore become a management tool or aid it should provide a structured methodology for using the performance measurement information to help set agreed-upon performance goals, allocate and prioritize resources, inform management either to confirm or change current policy (Kerrets, 2008). Different models have been designed for the performance measurement systems; however on realization that the models fall short in some areas, NPR (1999) attempted to provide a conceptual framework for organizing performance measurement systems. This included the use of a balanced set of measures; matrix systems; target settings; benchmarking; and National Quality Award criteria.

Research into the models have come up with more elaborate frameworks and methodologies such as the Balanced score card; the business excellence model; key performance indicators; performance measurement questionnaire; performance prism and competitive benchmarking. These frameworks have generated a lot of interest as each purport to be unique although each offers a different perspective on performance (Othieno, 2006; Ghalayani and Noble, 1996; Neely, 1999). These conceptual models have limitations such as; most of them do not identify clearly which are the variables, how they relate to each other and how they can be measured. The other limitation is that most of the models also try to focus on top-down approach in formulation and implementation of strategies and due to the varied dimensions in business performances

most fail in identifying and measuring the variables (Neely 1999; Kennerly and Neely 2003; Ghalayani and Noble 1996).

Performance Contracting is used as one of the modern tools in measuring performance. According to the GOK guidelines on performance contracting (2005), the PC concept is based on the maxim that: what gets measured gets done. Performance contracting is therefore not a substitute for overall performance management as it is only one element of a performance framework for generating desired behaviors in the context of devolved management structures, which is part of an overall resources allocation system (OECD, 1999).

### **2.1.2 The Concept of Performance Contract**

A Performance Contract is a freely negotiated performance agreement between Government, acting as the owner of an Agency, and the management of the agency. It is a management tool that organizes corporate objectives into simple, monitor-able and measurable performance criteria that are measured using clear indicators against negotiated performance targets at the end of a specified contract period (Trivedi, 2004). A performance contract clearly specifies; the intentions, obligations, responsibilities and powers of the parties; addresses economic, social and other tasks to be discharged for economic or other desired gain; organizes and defines tasks so that management can perform them systematically, purposefully and with reasonable probability of achievement; assist in developing points of view, concepts and approaches to determine what should be done and how to go about doing it; imparts operational and managerial

autonomy to Government agencies; reduces quantity of controls and enhances the quality of service (GOK, 2010).

Performance Contracting has been used in about thirty developing countries in the last fifteen years having started from France in the 1970's Kobia & Mohammed (2006). OECD (1999) defines Performance Contract as a range of management instruments used to define responsibility and expectations between parties to achieve mutually agreed results. Shirley (1998), Mann (1995) and Malathy (1997) have observed that when privatization as alternative public enterprise reform strategy is not feasible or palatable, some developing country governments have sought to improve the performance of state enterprises by negotiating performance contracts with their managers usually with the assistance of the World bank, as an instrument of reform or an interim policy of corporatization and commercialization to improve performance awaiting privatization.

Behn and Kant (1999), performance contracting is based on three assumptions: one, an effective way to get a contractor to help accomplish a specific public purpose is to pay that contractor only when he actually does something that contributes to achieving that purpose. Thus, a PC only pays for the production of specific results; secondly, the best way to motivate the employees who will implement the task is to let them design it. This will make the implementers devote the energy and intelligence necessary to ensure their ideas work. According to Jones et al. (2008), performance contracts will help in establishing the obligations and commitment of the two or more parties. They further

observe that performance contract contributes to creating a results-oriented culture in the public sector and provides accountability and possible transparency.

Performance contracting between governments and public corporations is increasingly being applied as an instrument for restructuring public corporations and for managing the government-public corporation interface. Underlying performance contracting and in line with New Public Management (NPM), is the belief that while granting public corporations management operational autonomy, there is a need to hold them accountable for their performance. In pursuit of the goal of performance improvement within the public sector, New Public Management emphasizes on the adoption of private sector practices in public institutions (Balogun, 2003). Kenya introduced performance contracting not only to improve service delivery but also to refocus the mindset of the public from a culture of inwards looking to a culture of business as focused on customer and results (Obong'o 2009). Performance contracts will help to establish performance goals and therefore lead to improved efficiency of the service delivery. Kiptoo (2008) in his study of strategic change management at UoN noted that the introduction of performance contracts was one of the fundamental changes the UoN employed to improve accountability and ensuring quality service delivery to stakeholders.

### **2.1.3 Types of Performance Contracts**

Performance contracts have been given different names depending of the country they are used in. In France they are referred to as "Contract De Programme" while in the United States of America they are "Performance Agreements". Other names used in the rest of

the world as Contract Plan, Letter of Engagement, Memorandum of Understanding to name but a few. Mann (1995) and Trevedi (2008) categories performance contracts into two main groups irrespective of the names. These are namely; The French based System and The signaling system. The French system of performance contract is based on identification and agreement on performance criteria at the beginning of the year and the eventual evaluation at the year end. There is therefore no distinction between targets by allocating them weights and as such it is affected by a high degree of subjectivity. This system is practiced in France, Benin and Senegal among others.

The signaling system is more popular in Asia for example Korea, India, Pakistan, Philippines and Thailand. The signaling system is based on the premise that public enterprise management should be appropriately guided to aim at improving real productivity and its efforts should be acknowledged and rewarded by an incentive system. According to Trevedi (2008) Kenya uses the signaling system that has allowed the government to convert the performance of a government agent into a composite score with a range of 1 to 5, where "1" stands for excellent performance and "5" for poor performance.

#### **2.1.4 Fundamental Preconditions for Performance Contracts**

OECD (1999) notes that performance is not a substitute for overall performance management as it is merely but one element of a performance framework for generating *desired behaviours in the context of devolved management structures which is part of an* overall resource allocation system. A comparative analysis of international experiences

by the United Nations, supports this view by adding that the difference in design and implementation of performance contracting and associated government policies in force in particular countries are the major factors of the success or failure of performance contracts. It concludes that each country has its own unique legal, institutional and cultural environment hence need to customize its approach to its own needs and circumstances.

PBMSIG (1999) argues for a structured approach as is used in the US, which focuses on strategic performance objectives; provides a mechanism for accurate reporting; bring all stakeholders into planning and evaluation of performance; provide a mechanism for linking performance to budget expenditures; provide a framework for accountability and share responsibility for performance improvement. They suggest a six-step process that includes establishing a successive program which include the definition of an original vision, mission and strategic objective; establishment of an integrated performance measurement system; establishment of accountability for performance; establishment of a process/system for collecting data; one for analyzing, receiving and reporting performance data; and one for using performance to drive performance improvement.

GoK (2005 a), OECD (1999), Trivedi (2004) and Mann (1995) are all of the view that performance contract should consist among other systems, a performance criteria. This is a quantifiable expression of the organization's objectives. It is the basis against which performance is measured and should therefore be simple, measurable and easy to monitor. There should not be too many criteria in a performance contract. They also

advance the view that a standard performance contract should consist of three sub-systems namely; Performance Information System- which relates to need for reasonable information balance between Government and it's agency in the process of negotiating performance targets. Performance Evaluation System- which comprises of performance measurement criteria and evaluation systems. Performance incentive/ sanctions system relates to a system that links rewards/ sanctions with measurable performance.

An operational criterion is also of great importance to the organization. It focuses more on the effectiveness and efficiency with which an organization achieves its core activities. There is however no known process cited in the literature to be followed by public sector organizations. The following dimension is however cited in PBMSIG (2001), NPR (1999) and OECD (1999) as major components of successful implementation of any performance system. These includes leadership in championing the cause; existence of a concise strategic plan with clear organization objective; a conceptual framework to enable the organization to focus its measures; commitment by everyone since the degree of commitment will determine the degree of success; involvement of all stakeholders, customers and employees both by the level and timing of employee involvement individually tailored depending on size and structure of the organization; creation of a sense of urgency to move to a new and enhanced performance and management regime; communication; ongoing feedback process to make adjustments and keep it operating efficiently; adequate resources in terms of money, equipment and people; customer identification; learning and growth to keep the organization in pace with the emerging technologies and trends; environmental scanning of both the external

and internal environments; enhanced organizational capacity centered on people and processes in ensuring that inefficient and ineffective processes do not get in the way of the drive to success; and institutionalized accountability for performance and measures with focus on results.

## **2.2 The Rationale for Performance Contracting**

The performance contract simply defined is an evaluation of performance. Performance contract can also be looked at as a memorandum of understanding (MOU). Suresh Kumar (1994) defines performance contract as a memorandum of understanding (MOU). MOU is rooted in an evaluation system which not only looks at performance comprehensively but also ensures improvement of management by making the autonomy and accountability aspects clearer and more transparent. A widely accepted rationale for performance contract is that public organizations have many unclear objectives and reporting centers (Trivedi, 2008). Since the management does not concentrate on one or a few clear objectives it becomes hard for them to excel in all objectives. The performance contract therefore tries to address this by listing and prioritizing the objectives as preferred by the organization owners that is the government. It also clearly defines the reporting center by identifying the office signing on behalf of the government.

There are other reasons that have been cited in support of performance contracts (PCSC, 2005). One such reason is that performance contract can be an alternative to privatization or it can be used as a prelude to planned privatization. An organization that has gone through performance contracting could improve its balance sheet and its overall image

making it attractive to investors. Performance contracting could therefore lead to improved services to the public and also earn a high return in case of government divesture. Secondly performance contract increases autonomy of the public enterprises. Since the government as the owner signs the PCs it should therefore refrain from interfering with the day to day running of the state corporations. This gives a free hand to the management of these organizations to operate and attain the organizations objectives while at the same time meeting their obligations in the signed PCs. At the same time the state is able at the signing stage to negotiate its expectation and requirements from the government.

Thirdly performance contracts have been used as a persuasive tool for public sector reforms by bilateral agencies. This is following recognition by these agencies of the routine interference by government in the day to day running of the state corporations. It has also been realized that some public corporations may have been set up to pursue certain social goals for example public hospitals and such pursuits may affect the financial results from operation of these entities. Therefore, a prior understanding of the extent to which financial results can be traded off against the social objectives to be achieved through performance contract would help clarify the public enterprise's targets. The fundamental principle of performance contracting is the devolved management style where emphasis is management by outcome rather than management by processes (Kobia and Mohammed 2006).

## **2.3 History of Performance Contracting in Kenya**

Obong'o (2009) observes that traditionally, the shortcomings of the public sector were seen as organizational problems capable of solution by appropriate application of political will, powerful ideas and managerial will. However poor performance over the years of the public sector, especially in management of public resources has hindered the realization of sustainable economic growth. Some factors adversely affecting performance were identified as; excessive regulation and controls, frequent political interference, poor management, outright mismanagement and bloated staff establishment. To improve performance, the government of Kenya started undertaking a number of reforms measures in the public sector. A new approach to the performance contracting concept in line with the objectives of the Economic Recovery Strategy for Wealth and Employment Creation (2003-2007) was initiated with selected public enterprises on a pilot basis. The government of Kenya started sensitizing the public sector corporations on the concept of performance contracting using performance contracting sensitization manual (GOK 2005a). It also developed an information booklet on performance contracts (GOK 2005b) to guide on the process of performance contracting.

In 2003, the government made a commitment to re-introduce performance contracts strategy as a management tool to ensure accountability for results and transparency in the management of public resources (GOK, 2003). To legalize the process a Performance Contracts Steering Committee (PCSC) was established in August 2003 and gazette on 8<sup>th</sup> April, 2005 with a mandate to spearhead the introduction and implementation in the entire public sector. The concept of performance Contracting was first introduced in the

management of state corporations in 1989. A parastatal Reform Strategy Paper, approved by cabinet in 1991, was the first official recognition of the concept of Performance Contracting as it was part of the policies that were recommended to streamline and improve the performance of State Corporations. Performance Contracts, where applicable were to be used to make transparent the cost of social services and to compensate the parastatals for their costs.

The first two parastatals to be on Performance Contracting were Kenya Railways Corporation and the National Cereals and Produce Board. Kenya Railways signed in April 1989 and National Cereals and Produce Board signed in November 1990. The two PCs failed due to lack of political goodwill as the concept was perceived to be donor-driven. The PC's did not also conform to the requirements of the three subsystems of PC's as they lacked the performance incentives system. When introducing the concept there was also no provision for external factors impact including changes in GoK policies. Kenya reintroduced performance contracting in 2003 which was clearly spelt out in the Economic Recovery Strategy for Wealth and Employment Creation (ERSWEC, 2003-2007). The performance Contracts Steering Committee was appointed in August 2003 to spearhead the introduction and implementation of performance Contracts. The criteria for selecting the pilot companies included representation of diverse sectors and corporations with strategic plans.

Following the success in implementing PCs in State Corporation the government extended the process to the Public Service starting with the Permanent Secretaries as the

accounting officers. The roll out has continued to date to include other government departments, local authorities, tertiary institutions and all state corporations. Following the release of the 2008/2009 financial year evaluation report in March 2010, the GoK through the office of the Prime Minister appointed a panel of experts on May 6<sup>th</sup> 2010 to review Performance Contracting and Evaluation in the Public Service with a view to making appropriate recommendation for improving the system. The experts in their report released in September 2010 concluded that "...the process is now institutionalized and mainstreamed in Public Service Institutions. However, the full benefits of Performance Contracting will be realized when all the three arms of Government will have embraced the system."

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter will describe the methods the researcher used to conduct the study with the aim of achieving the set objectives. For effective interpretation of the research findings, the data and information generated was subjected to qualitative analysis.

### **3.2 Research Design**

The research design used was that of a case study which according to Kothari (2004) is appropriate where a detailed analysis of a single unit is desired as it provides a focused and valuable insight into the phenomenon that may otherwise be wrongly and vaguely known. (Mugenda and Mugenda, 2003) supports this view by stating that, by using case studies, researchers are able to collect data and explain phenomenon more deeply and exhaustively.

The case study design was used to gathering in-depth information regarding the implementation process and the factors that have influenced it. Since the unit of study is one university out of an industry dominated by seven public universities and an additional thirteen private ones the case study supports the use of content analysis that has more material details.

### **3.3 Data Collection**

The researcher collected primary data by use of a detailed interview guide (Appendix I). The interview guide was used to conduct personal interview through open ended questions. Since Performance Contracts are the responsibility of top management the respondents were be the UoN top administrative managers including the, the Deputy Registrar Administration in charge of performance contracts secretariat and six College Registrars.

The Deputy Registrar Administration is the UoN management representative for the whole university whiles the Registrars are the management representatives at their respective colleges. This ensured the research captured the whole process as has been cascaded down to the college levels.

### **3.4 Data Analysis**

The data collected was checked for completeness, uniformity, consistency and accuracy. This data was then evaluated and analyzed by carrying out a content analysis on the interview guide responses. Cooper and Schindler (2003) emphasizes that content analysis measures the semantic content or the 'what' aspect of the message. They further point out that content analysis guards against selective perception of content, provides for rigorous application of reliability and validity criteria.

Nachimas and Nachimas (1991) also defines content analysis as a technique for making inferences by systematically and objectively identifying specific characteristics of

messages and then relating the themes. The data collected was summarized according to the study themes which is the implementation process and the factors that have influenced the same. The researcher analyzed the data to have clarity, preciseness, and ease of understanding for better interpretation of the results.

# **CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION**

## **4.1 Introduction**

This chapter presents the field data findings, an analysis of the findings and gives the research's interpretation of these findings. The data findings are on the Performance Contracting implementation process at the University of Nairobi. The findings also includes factor that have affected this process. The researcher uses qualitative method of data analysis to get an in-depth understanding of the findings as collected from the field.

## **4.2 University of Nairobi Profile**

The university council headed by a chairman is the supreme authority and policy making body of the university. The council is charged with the responsibility of governance, control and administration of the university. The council formulates policies, creates faculties and approves the appointments of some cadre of university staff (UoN academic calendar July 10-June 2011).

The Vice Chancellor appointed by the chancellor on advice of the council is the Chief Executive Officer and accounting officer of the UoN. He is the academic and administrative head of the university, assisted by the four Deputy Vice Chancellors who are appointed by the council in consultation with the chancellor. The four DVCs are namely; for Administration and finance, Academic affairs, Student Affairs and Research, Production and Extension. The Director of Students' Welfare Authority (SWA) also falls under the office of the Vice Chancellor. The VC's office is charged with formulating the

strategic management plan of UoN and is also responsible for policy matters, planning, coordination, public relations, fundraising and general development of the University. The DVC (Administration and Finance) is responsible for all administrative and financial affairs at the UoN. The DVC (Academic Affairs) is responsible for syllabus development, regulations, admissions, examinations, research, post graduate studies and academic staff training. The DVC (Students Affairs) is in charge of handling all issues affecting students except academics. The DVC Research, Production and Extension is in charge of all research activities carried out by the UoN. The Director of SWA handles student's accommodation and catering needs. The university senate chaired by the Vice Chancellor is responsible for the administration and management of academic programs.

The University Management Board (UMB) chaired by the vice chancellor is responsible for the co-ordination of university and college development plans, efficient management of resources both human and material, initiation of policies, and handling matters that relate to the general management of the entire university. The UMB is constituted by the vice chancellor, the deputy vice chancellors, and the principals of constituent colleges, the UNES Managing Director and the administration registrar as its secretary.

The College Management Board (CMB) is charged with the administrative functions of the respective college. The CMB chaired by the respective college principal is responsible for the administration and management of academic programs of the respective college. The CBM membership constitutes the principal, deputy principal, deans of faculties, directors of schools and institutes, the bursar and the college registrar as its secretary. In view of the rapid expansion and complexities in administration, the University underwent a major restructuring in 1983 resulting in decentralization of the

administration, by creation of six campus colleges headed by principals. The number has since increased to eight as follows; College of Agriculture & Veterinary Sciences (CAVS) situated at Upper Kabete Campus constitutes of two faculties, ten departments and ‘The Wangari Maathai Institute for Peace and Environmental Studies’; College of Architecture & Engineering (CAE) situated at Main Campus with four faculties and ten departments; The College of Biological & Physical Sciences (CBPS) situated at Chiromo Campus constitutes one faculty, three schools and The Centre for Biotechnology and Bioinformatics.

The College of Education & External Studies (CEES) situated at Kikuyu Campus with seven departments has ‘The centre for Open & Distance Learning’ and The Kenya Science Campus. The College of Health Sciences (CHS) is situated at the Kenyatta National Hospital Campus with five schools, a centre and an Institute; College Humanities and Social Sciences (CHSS) situated at the Main Campus is the largest in terms of student population, accounting for 52% of all students. It is the most wide spread in terms of physical facilities and constitutes three institutes, three schools and nine faculties. The Kenya Polytechnic University is a constituent college situated at Nairobi Central Business District. The South –Eastern University Constituent College situated at Kitui; is the latest college of UoN situated in Kitui to cater for students demand from the Eastern and Northern regions of Kenya. (UoN strategic Plan 2008-2013)

### **4.3 Implementation Process of the Performance Contracts**

Performance contracts like other strategies and management practices can only achieve the desired results only if the necessary pre-requisite conditions are met. The University of Nairobi being a public tertiary institution embraced the Performance Contracting concept in the financial 2005/6 after a directive from the central government of Kenya following publication of legal notice No. 93 of 2004 making Performance Contracting a national policy. The research has established that the UoN management rolled out the Performance Contracts to its colleges in the following financial year 2006/7.

The UoN top and mid-level management staff were sensitized on the PC process through structured workshops and intensive trainings that included bringing in external consultants during the initial year of implementation. This was confirmed by four of the college representatives; however the other two were not in their current positions and have not received any formal training on the process. This represents a third or 33% who have had on the job training on the process. The Deputy Registrar Administration affirmed he has been holding sensitization with staff to explain the purpose and importance of the PC process and why the UoN should follow the right process.

#### **4.3.1 Contracting Units**

The Deputy Registrar Administration was interviewed as the UoN top management representative. He has been involved in the Performance Contracting process at the UoN for the last six years and is the secretary of the UoN PC secretariat which is chaired by the Vice Chancellor; the secretariat meets once a week or as frequently as necessary to monitor the PC progress. The interviewee confirmed that the VC also chairs a council's

Performance Contract subcommittee that negotiates the contract with the parent ministry on behalf of the university.

The Performance Contract targets are drawn from the Institution's five years strategic plan which is broken down to annual work plans. The UoN's targets to be achieved within a year by the management are clearly identifiable, measurable and time bound. From the PC targets agreed with the parent ministry the UoN Council signs annual performance contracts with the Vice Chancellor and his four deputies.

The performance contracts are cascaded down through the signing of PCs between the Vice Chancellor and all college principals, the director of SWA, the director of UNES and senior central administrative staff like the finance officer. The performance contracts signed by the college principals are further cascaded down to the deans of schools and administrative officers within the colleges. That contract is then cascaded to the operational units. The University of Nairobi currently has signed twenty seven internal Performance Contracts. These have been signed by the six college principals, one director of Student's Welfare Authority (SWA), one director of the University of Nairobi Enterprise Limited (UNES) and nineteen central administration offices.

All the six college representatives interviewed confirmed that the respective principals have signed the PC on their college behalf with the Vice Chancellor. These contracts are standardized and identical for ease of comparison between the colleges. The principal in turn signs the PC with Deans, Directors of Schools/ Institutes and Departmental heads within his college.

### **4.3.2 Negotiation Process**

The negotiations are in three stages; pre negotiation where UoN meets with its stakeholders for example staff, students, service providers, creditors etc. The council subcommittee interrogates the UoN SWOT with the aim of identifying the key strategic areas. Based and derived from the UoN five years strategic plan the subcommittee comes up with the annual targets for every performance contract signed annually. Each target has one or more measurable performance indicators that are assigned weights. In stage two the set targets are then negotiated between the principal that is the government of Kenya represented by the line ministry of higher education and technology and the agent that is the UoN council represented expressly by the subcommittee.

The contract is then submitted for vetting by the Performance Contracting Department (PCD) which confirms that the university followed the PC guidelines and that the set targets are not simplicity and easy to achieve. Once passed and approved through the vetting process a vetting letter is issued to the UoN Council confirming approval. The signing ceremony of the PC is then arranged between the ministry permanent secretary representing the principal and the UoN council chairman representing the agent. The council chairman in turns signs the PC with the university Vice Chancellor and the four Deputy Vice Chancellors.

The University Management Board (UMB) negotiates with the College Management Boards (CMB) while setting the performance contracts for each college. The six college respondents are in charge of coordinating the process at their respective work stations through college PC committee. As members of the College Management Boards (CMB) they are involved in negotiating and setting targets between the board and the University

Management Board (UMB). For every performance target set there is a measurable indicator.

### **4.3.3 Evaluation Process**

The interviewees intimated that the Performance Contract is broadly divided into six categories. Five of these categories are predetermined by the government towards achieving the national policies and strategic direction. The operational category which is the sixth is however based on the institution's strategic plan and therefore management has a lot of independent input on this category to enable the institute achieve its vision and realize its mission.

The college interviewees coordinator the process at their respective colleges and are therefore in charge of collecting data, analysis and populate it on the performance matrix template. Since each performance target has a measurable indicator a weight is assigned on evaluation to gauge how much has been achieved versus the original target. When interrogated on the link between their strategic plans and the PCs, all college registrars confirmed they have developed their individual five strategic plans which are cascaded from the global UoN strategic plan (2008-2013). Annual work plans are drawn from these strategic plans and Performance Contracts targets are set from these plans.

### **4.3.4 Incentives**

The UoN has developed an internal ranking system for its colleges to encourage individual colleges embrace this concept and improve their performances. The best performing colleges' ranked numbers one to three are awarded annually during an elaborate ceremony graced by the UoN top management.



## **4.4 Factors that Influence the Performance Contract Implementation**

### **Process**

The other objective of this study was to establish the factors that have influenced the PC implementation process. Performance contracts will succeed where best management practices have been implemented, the institution's strategic plan therefore becomes a corner stone on which the contract is anchored. All interviewees were in agreement that the introduction of Performance Contract has fundamentally changed the University of Nairobi in terms of employees' attitude towards work and also brought about a structured road map of attaining the institutions' vision. However the process has been affected by many enabling factors and challenges over the years. The interviewees were asked to give a list of the factors that have affected the PC process over the last five years of its implementation.

#### **4.4.1 Strategic Plan**

All respondents unanimously agreed that having a strategic plan has greatly influenced the PC implementation process. This is because there is a strong link between the UoN strategic plan and the individual college's strategic plan versus the targets set each year in the performance contracts. Strategic planning is the process through which an organization develops a vision of its future and draws objectives to be achieved, clearly defines the strategies and action plans to be followed to achieve the set objectives. The UoN strategic plan has therefore informed and guided the PC implementation process. As confirmed during the interview with the management representative the UoN implemented the 2005/2010 which was reviewed and revised to the current 2008/2011

plan. The strategic plan has been able to guide and give direction to the institution on the road to achieving its vision and mission.

#### **4.4.2 Organization Structure and Culture**

The respondents also sighted a clear organizational structure as a factor that has enabled the smooth implementation of the PC process. This goes hand in hand with the strategic plan implementation as specific measurable tasks are assigned specific offices with a time line. The organization structure has effectively allowed the PC process to flow along the hierarchy and also enabled the UoN council review critical areas by revising the structure. This is evidenced by the creation of additional Deputy Vice Chancellors offices to handle unique aspects such as research and development.

The UoN organization culture was also highlighted as a factor that has greatly influenced this process. Organization culture helps in nurturing and dissemination of core values. The UoN being a tertiary learning institution has had a culture that involves learning transmitting of knowledge, beliefs and patterns of behavior over time. This culture has evolved over the years and is therefore fairly stable and does not change fast. The new PC implementation process was therefore embraced by the UoN management at inception and throughout the initial years thereby making the process smooth.

#### **4.4.3 Leadership and Management Style**

Three respondents representing about fifty percent of the interviewees stated leadership and management style as a factor that has influenced this implementation process. The UoN management has over the years provided strategic leadership that enabled the implementation of this new concept. The role of the Chief Executive Officer (CEO) was