CONTRACT MANAGEMENT AS A CRITICAL SUCCESS FACTOR IN STRATEGIC DECISION MAKING AT KENYA AIRWAYS LIMITED

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULLFILLMENT OF THE REQUIREMENT OF DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA)

SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

NOVEMBER 2011

DECLARATION

This is my original work and has not been submitted for any degree or diploma in any other Institution.

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This project has been submitted with my approval as the candidate's supervisor.

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ACKNOWLEDGEMENTS

I would like to convey heartfelt gratitude and acknowledgements to the following people: Dr. Zack B Awino, my supervisor, for his patience while reading my works, his constructive criticism and guidance through to the completion of this project, Staff of Kenya Airways Limited, who supported and assisted me during the time of writing this project, special thanks to my line manager Eng.Chris Oanda for his understanding and support during the many sessions I had to be off work to work on the project and Mr. Morris Omollo, my research assistant; whose contribution and encouragement saw to the timely completion of this research work. God bless you all.

DEDICATION

This work is dedicated to my wife Alice and my children Pheny, Queen, Ng'wono & Baraka and to my mum Janet. Thank you all for your prayers, patience, support and understanding. To my late dad Joseph, you have been a true source of inspiration even in death.

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LIST OF ABBREVIATIONS AND ACRONYMNS

KQ:	Kenya Airways Limited
GoK:	Government of Kenya
IATA:	International Air Transport Association
CSF:	Critical Success Factors
KCAA:	Kenya Civil Aviation Authority
KPI:	Key Performance Indicator
ERP:	Enterprise Resource Planning
KAA:	Kenya Airports Authority.
BBC	British Broadcasting Corporation

ABSTRACT

This research set out to look at Contract Management as a critical success factor in strategic decision making at Kenya Airways Limited (KQ). Its overall objective was to evaluate the effects of the implementation of Contract Management as a critical success factor in strategic decision making at KQ. Due to its descriptive nature the research outlines an empirical analysis of the data provided by a sample of twenty two middle level managers at Kenya Airways working in the Legal, Finance and Supply-Chain departments, by identifying and creating categories, themes and patterns. The researcher found that Contract Management in KQ is in its initial stages of implementation and its importance and benefits have not reached a level where it is considered as a critical success factor in strategic decision making. The study recommends full automation of all the contracts into the *Oracle* ERP Contract Management module; setting up of information centers to provide adequate information concerning Contract Management; KQ should have a policy where it avoids open ended contracts that are subject to change by third parties, because they will compromise the consistency of Contract Management; and, Contract Management should begin from the time of selection of third party persons to deliver the goods or services, and not after the award of contract.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

A Contract is a legally enforceable agreement between two or more parties with mutual obligations. For an airline company the parties to an agreement are many and diverse and include suppliers like Boeing Company and or Airbus that supplies aircrafts, employees and staff, consultants and independent contractors, regulatory institutions such as the International Air Traffic Association (IATA), Government institutions like the Kenya Revenue Authority, service institutions, banks and insurance companies.

Contracts in corporate organizations can be divided into three main categories to include commercial, labour, and regulatory contracts; whereas labour contracts govern the relationship between employee and staff, regulatory contracts detail the expectations between the company and the regulators, mostly from the external environment. The commercial contract, whose management is the subject of this study is signed between a firm and its suppliers of goods and services.

As the case study of this research, Kenya Airways (KQ) has many contracts that relate to supply of various goods and services that it requires in the course of its business. The contracts relates to key direct operating requirements; jet fuel, in flight supplies, facilities development and maintenance and core services e.g. navigational services, ground handling services just to mention but a few.

About 70% of the revenue earned is spent on supplies, the relationship of which is governed by the contracts. Management of these contracts is therefore key to the success of the company in terms of cost and risk management. Contracts by nature are bulky and full of legal terms and provisions, making them not desirable for very many people to read. The key clauses in a contract are however of commercial nature and not legal-covering aspects e.g. scope of works, payment terms, penalties in case of non conformance and related. Organizational staff tasked with ensuring implementation and execution of contract provisions in many cases do not have legal background-adding credence to the approach that contracts are not necessarily "legal documents".

Contracts are at the heart of Kenya Airways. With an annual spend of about KES 60 Billion; KQ must succeed in managing the contracts around this spend if it has to remain competitive. The business has identified Contracts Management as one of its strategic pillars as evidenced through creation of an in house legal team of four counsels and a contracts office within Supply Chain division.

With all these complexities surrounding the management of commercial contracts with regards to business operations, this study intends that such management is viewed as a critical success factor in the context of strategic decision making in order to achieve KQ's vision.

1.1.1 Contract Management

Contract Management is in the core of running competitive enterprise weather it is a private or a public. Any organization has as many contracts as determined by its size and the complexities of its business operations. Organizations differ in their definition of what is or is not a strategic contract. British Broadcasting Corporation (BBC) defines strategic contract as those which have an annual value of at least £2 million, a term of at least five years and which make a key contribution to its business (National Audit Office, 2008). The BBC's aims in managing these contracts are to control expenditure to planned levels, achieve financial savings, maintain or improve the quality of service received and to secure the longer-term benefits, such as innovation, which are facilitated by strategic contracts.

The first step in strategic contracts management by any organization is to clearly define what constitutes a strategic contract. Most organizations follow the Pareto Principle in classifying strategic contracts. The Pareto principle (80 20 rule) considers the vital few (Wikipedia, 2011), and includes the 20% of the contracts an organization has which constitute the 80% of the total spend of the organization. Criticality of the contracted commodity is also a factor in refining the category.Organizations view Contract Management as an ongoing multi step approach intended to ensure the organization secures service enhancements and financial objectives it outlined at the time of contracting. Once strategic contracts is defined, then the scope of Contract Management needs to be defined, "will it include contracts in a specific department for example Flight operations or will it include contracts across all the business functions?"

The wider the scope the bigger the benefits but the narrower the scope the easier and faster the implementation process, (International Association of Contract and Commercial Managers (IACCM), April 2003).It is therefore advisable that an organization starts with few contracts in a select department before gradually expanding to other departments. The choice of the pilot department must be made wisely to ensure a large department with many and a diverse type of contracts is selected. This is useful on mapping process and lessons learnt and applying the same when Contract Management is rolled out to the rest of the business functions.

Contract repository is the next major consideration. This is the contract storage method adopted. Clear cut distinction is to be made on what is to be in or out of the repository. Best practice is to focus on live contracts i.e running contracts as from specific date. Small organizations with few contracts can use manual repositories. Large organizations with presence in more than one country prefer online repositories that can allow multiple accesses by various users. The platform adopted should be able to support easier, cost effective and convenient access of the contracts by the various business stakeholders whilst maintaining the confidentiality control that may be required in some contracts. Many Enterprise Resource Planning (ERP) vendors have developed various systems and programs that provide repository solutions. These include *Oracle* Contracts Management system, Ariba contracts management system and the SAP contracts module.

With the right tools and processes in place, an organization has to exercise strategic control over the Contract Management process. Andy Kyte, 2004 observes that Strategic control is about taking advantage of the leverage gained by superior Contract Management. She argues that extensive Contract Management significantly reduces risks, decreases dependence on a single vendor, partner or party, and enables volume discounts and helps the forming and implementation of future visions of the organization.

1.1.2 Critical Success Factors

Rockart, 1971, defined CSFs as "the limited number of areas in which results, if they are satisfactory, will ensure successful competitive performance for the organization. They are the few key areas where things must go right for the business to flourish. If results in these areas are not adequate, the organization's efforts for the period will be less than desired". He further argued that they are areas of activity that should receive constant and careful attention from management. Critical Success Factors are strongly related to the mission and strategic goals of an organization. Whereas the mission and goals focus on the aims and what is to be achieved, Critical Success Factors focus on the most important areas like what is to be achieved and how it will be achieved.

Critical success factor is vital for the success of the strategy of the organization since it drives the strategy forward. It does this by creating a common point of reference to help the organization direct and measure its success. As a common point of reference, CSFs help everyone in the team to know exactly what's most important. And this helps people perform their own work in the right context and so pull together towards the same overall aims.CSF is different from Key Performance Indicator (KPI) in that KPIs quantifies the management objectives and enables measurement of strategic performance.

Kenya Airways vision is "to consistently be a safe & profitable airline that guarantees world class service: The pride of Africa". Profitability is heavily dependent on proper management of the cost base. With global oil prices rising and passengers reducing on non essential travel due to economic pressures, KQ must smartly manage its cost base through strategic value adding partnerships with its' suppliers and other third parties that it engages with on day to day basis. Consistency on safety can only be sustained on proactive risk identification and management culture is developed and sustained. This means service providers including but not limited to ground handlers, navigational service providers and direct material (in flight product) providers must be managed in a way that real value is obtained from the relationship. Most of these third parties are contracted and the way KQ manages these contracts has a direct bearing on it realizing its mission of being a safe and profitable airline. This makes Contracts Management a Key Critical Success Factor in the future success of Kenya Airways.

1.1.3 The Aviation Industry in Kenya

At a glance the Kenya Aviation Industry has both commercial airlines and private airlines. The market is dominated by Kenya Airways, the national carrier but also has Jet Link and Fly 540 that combined, controls a sizable proportion of the market especially the low end segment. The industry is regulated by Kenya Civil Aviation Authority (KCAA) whose key role is to develop, regulate and manage a safe, efficient and effective civil aviation system in Kenya. Kenya Airports Authority (KAA), which is affiliated to the International Civil Aviation Authority (ICAO), manages all airports in Kenya. There are three International Airports; JKIA located in the capital city-Nairobi and which is also the hub for all International airlines operating in Kenya, Moi International Airport (MIA) in Mombasa and Eldoret International Airport (EIA) in Eldoret.

A fourth International Airport is under construction in Kisumu and is expected to be commissioned by the end of this year. The Wilson Airport in Nairobi handles light aircrafts and quite a number of scheduled and chartered domestic flights make use of the aerodromes there. There are more than 50 airstrips located strategically country wide connecting all parts of Kenya to Nairobi

1.1.4 Kenya Airways Limited

Kenya Airways (KQ) is the national carrier of Kenya. Established in 1977, KQ is one of Kenya's premier blue chip companies. Over the past 30 years, the company has grown into a large business with annual turnover of almost US$ 1 billion. It has achieved this through a strong focus on growth in African and Asian destinations, operating a modern fleet to International standards and good on board customer service. It has continued to enjoy success following its privatization in 1995 and subsequent listing on the Nairobi stock exchange in 1996.Kenya Airways provides flight destinations to Africa, Asia and Europe; its current staff base is 4,400 based in 30 countries.

The airline operates on a hub and spoke concept and is therefore organized to provide seamless flights to these regions. The airline is now an associate member of the sky team alliance, one of the three largest global airline alliances which have a strong customer focus. After a period of significant growth in turnover, destinations and fleet, management have recognized the need to consolidate the groups' position by focusing on consistent customer service and improved efficiency through better use of technology. Hence the strategic focus on people and systems. Driven by a continuous effort to meet customer needs for increased business and leisure travel, the airline has increased frequencies on various routes.

Kenya Airways now has triple daily flights to Kigali and Johannesburg, while Lagos, Accra, Bujumbura, Doula, Dubai, Addis, Free Town, Harare and Lusaka got additional flights respectively within the last one year. KQ has also refocused on the local route and now has a dedicated service to Mombasa dubbed "the Mombasa shuttle" that makes ten daily flights to Mombasa. Kisumu has three daily flights increased from two within the last one year.

1.2 Research Problem

Kenya Airways vision is "to consistently be a safe & profitable airline that guarantees world class service: The pride of Africa". Profitability is heavily dependent on proper management of the cost base. With global oil prices rising and passengers reducing on non essential travel due to economic pressures, KQ must smartly manage its cost base through strategic value adding partnerships with its' suppliers and other third parties that it engages with, on a day to day basis.

Consistency on safety can only be sustained on proactive risk identification and management culture is developed and sustained. This means service providers e.g. ground handlers, navigational service providers and direct material (in flight product) providers must be managed in a way that real value is obtained from the relationship. Most of these third parties are contracted and the way KQ manages these contracts has a direct bearing on it realizing its mission of being a safe and profitable airline. This makes Contracts Management a Key Critical Success Factor in the future success of Kenya Airways.

Various studies have been specifically done on Kenya Airways and the general aviation Industry in Kenya. Masinde (1986) studied on the perceived quality service while Koech (2002) researched on the influence of job design on employee perception on job satisfaction. While Masinde's study was before privatization of KQ in 1995, Koech compared the pre privatization and post privatization periods in KQ and the study outlined the positive change on employee perception post privatization. Mwanthi (2004), studied on the financial impact of privatization while Chemayiek (2005) studied on the consumer's perception on corporate branding. Further studies were done by Mulandi (2005),Okoko (2006) just to mention but a few. These studies have focused on the financial, service and marketing aspects of Kenya Airways, but none has looked at its contractual relations with third parties.

Many studies have been done on performance contracting in the public and private sector in Kenya; State corporations, Choke (2006) and Wanjiru (2006), Kenya Power & Lighting Company, Omondi (2006), East African Portland, Korir (2006), Judiciary, Kangira (2008) amongst others. These studies have focused on the relevance and effectiveness of performance contracting as a state initiative to track and measure performance amongst state corporations. No study has been done on commercial contracts and how contracting relates to the overall strategy of the organization. Aosa (1992) argues that strategies once implemented have no value unless they are effectively translated into action. KQ therefore has to develop processes and mechanisms of executing the well developed strategies if they are to deliver the intended value.

Several studies have documented challenges in strategy implementation within various Kenyan organizations; Musyoka (2008) focused on the challenges faced in strategy implementation at Jomo Kenyatta Foundation and acknowledged the diverse nature of strategy in various organizations. In current turbulent times, firms in Kenya operate under increasing competitive and ever changing environment. (Musyoka, 2008). Musyoka argues that the ever changing environment puts organizations under pressure to continually review their strategic plans to formulate new ones to suite the existing trends. Kenya Airways is faced by increased competition, locally from Jet Link and Fly 540.Regionally Air Rwanda, Air Uganda and Ethiopian Airways are increasingly expanding to routes that have previously been a "preserve" of Kenya Airways while major international airlines e.g. Emirates, Qatar, British Airways, Air France, Saudi Airlines have opened up offices in Nairobi where they operate from to access other African destinations. The ever fluid fuel prices have equally increased pressure on the airline. This means KQ has to continually review its strategic plans if it is to remain competitive in an increasingly competitive environment.

Considering the above, it is clear that Contract Management should take the centre stage as a critical success factor in business processes. Its relevance cannot thus be overlooked by policy makers in the course of their decision-making. However, little has been done to analyze its contribution to successful strategy formulation and implementation. It is against this backdrop that the researcher proposes to analyze Contract Management as a critical success factor in strategic decision making. The study is intended to answer the question; Is Contract Management Considered a critical success factor in decision making at Kenya Airways?

1.3 Objective of the Study

The overall objective of this study was to evaluate the effects of the implementation of Contract Management as a critical success factor in strategic decision making at KQ.

1.4 Value of the Study

Strategic Contracts Management is Critical to KQ achieving its mission of being a safe and profitable airline. A lot of research has been done on what constitutes world class (best practice) contracts management. This study aims to identify the gaps that exist between Kenya Airways current Contract Management practices and what is considered best practice. The gaps identified should help Kenya Airways develop remedial measures by putting in place the right tools and processes that will enable it realize its mission through Contract Management as a CSF. Other organizations will also have an opportunity to learn from Kenya Airways experience and possibly develop robust Contract Management processes and practices that will enable them realize full value envisioned during contracting.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This Chapter details past studies on strategy and strategic management, critical success factors and how organizations identifies and selects them and Contract Management in the aviation industry.

2.2 Concept of Strategy

The word strategy is derived from two Greek words: stratos (army) and ago (ancient Greek for leading). "Strategos" referred to a military commander during the Athenian democracy (Wikipedia, 2007). While it has no single definition, strategy may be seen as a multidimensional concept that embraces all the critical activities of an organization. Lack of a single definition points to the selective attention given to the various aspects of strategy by different authors (Aosa, 1992).

Mintzberg et al (1999) defines strategy as the pattern or plan that integrates an organization's major goals, policies and action sequences into a cohesive whole. They view strategy as a ploy, pattern, position, plan and perspective. Strategy as a ploy is the action taken by an organization with the intention of outwitting its rivals. As a pattern, strategy emerges without preconception from a series of actions visualized only after the events it governs. Strategy as a position is a means of competitively positioning an organization in its external environment.

As a plan, strategy specifies a deliberate course of action designed before the action it governs, while as a pattern strategy reveals an organization's perception of the outside world. According to David (2007), strategy can be described as the unique and distinctive actions that a company takes on the organizations value chain to achieve a competitive advantage that will contribute to greater net profitability.It is the winning plan that an organization has in place to remain competitive. Strategy must be geared to the success of the organization. Successful strategies have four key ingredients. The organization must set clear, simple and long term goals that it pursues into the foreseeable future. Kenya Airways (KQ) goal of increasing fleet size from current thirty to fifty in the next ten years is intended to drive growth and ensure the company remains competitive into the future.

Strategies that support key milestones e.g. new route launches will therefore rotate around the goal to increase the fleet Business strategy should be developed after thorough understanding of the competitive environment. Business competitive environment included both internal and external factors. A detailed understanding of these factors ensures strategy is aligned towards competitiveness of the organization. Organizational resources need to be appraised objectively and regularly while effective implementation will greatly determine how successful a business strategy is.

2.3 Corporate Contracts

A Contract is a legally enforceable agreement between two or more parties with mutual obligations. For an airline company the parties to an agreement are many and diverse and include suppliers; Boeing Company and or Airbus that supplies aircrafts, employees and staff, consultants and independent contractors, regulatory institutions like the International Air Traffic Association (IATA), Government institutions including the Kenya Revenue Authority, service institutions that includes. banks and insurance companies. Under common law there are key elements that an agreement must fulfill before qualifying as a contract.

Kronman et al (1986) observes that mutual consent involves offer and acceptance between the two or more contracting parties. He further emphasizes that obligations are only imposed upon one party upon acceptance by performance of a condition. Masinde (2008) identifies considerations as the key second element. Consideration is something of value given by a promissor to a promisee .This may be a good or service of value that one party commits to provide to another party in exchange of an agreed value. In addition to the elements to a contract, both parties must have capacity to contract; the purpose of the contract must be lawful, the form of the contract must be legal, and the parties must intend to create a legal relationship. Contracts may be oral or written.

Written contracts are widely preferred in the airline industry and are the norm, Mulandi (2005). A contract fulfilling the key elements and conditions highlighted above is enforceable in any court within any jurisdiction. Contract management involves the administration of contracts made with customers, vendors, partners and or employees. Contract management includes negotiating the terms and conditions in contracts and ensuring compliance with the terms and conditions and documenting and agreeing on any changes that may arise during its implementation or execution (Aberdeen Group, 2011). It is the process of employing systems to efficiently manage contract creation, execution and analysis with the objective of maximizing financial and operational performance and minimizing business risks.

Many organizations in Europe have employed the use of system software to manage contract elements like creation, analysis, monitoring compliance and renewal of contracts Kronman et al (1986). Even where the systems have been efficiently employed, human interface is still key to ensure that maximum value is derived from the systems. None of this systems has however been developed specifically for the airline industry (International Air Travel Association, IATA, 2010).The use of software to manage contracts is still a rare practice in Kenya and to a greater extent Africa and many organizations use manual systems in contracts management.

David (2007) states that "Irrespective of the system used in contract management weather manual system or automated software, the key objective of both approaches remains to manage commercial and legal risks and ensures that negotiated and contracted benefits are delivered so that the contracting entity secures maximum value from its dealings with contracted parties". The process and the tools in place to support strategic contracts management have a great impact on the final outcome, (Goldman Sachs, February 2001).The process should be detailed and holistic covering the entire contract life cycle, approval procedures, information distribution and contract access controls. The detailed process should then be documented in contract management handbook that defines procedures and guidelines used in the organization.

The tool chosen should be able to support the process defined for the organization. Off the shelf tools exist but customized solutions, sensitive to the unique requirements and operating environment of the organization delivers more value when all requirements are mapped and factored in the development, (IACCM), April 2003).Standard contract templates are common tools used to support contract management.This involves developing templates that incorporates standard contracting terms of the organization and the jurisdictional differences of the various contracting parties. If well developed, they greatly reduce contracting lead time since only the key variables are input to an already existing template. It further eases contract performance management due to standard clauses under review.

The constraint is that not all contracting parties may be agreeable to a standard template from another party; they may also have their own templates hence negotiations to either harmonize the two or agree as to which template to be employed. Contracts in a corporate organization can be divided into three main categories namely commercial, labor, and regulatory contracts; labor contracts that govern the relationship between employee and staff (Aberdeen Group, 2011). These are executed between the employee and the organization at the time when the employee is joining the organization and contain amongst others remuneration terms, nature of work, reporting lines, hours of work, leave entitlement and termination clauses. Regulatory contracts detail the expectations between the company and the regulators, mostly from the external environment. Regulatory agreements are never negotiated in most cases, and will apply to all the firms in a particular industry.

A firm rarely has discretion of not complying as penalties may include withdrawal of operating licenses and related. Commercial contracts, the subject of this study, are signed between the firm and its suppliers of goods and services. They are critical in the context that failure to fulfill contractual obligations by either party always ends up in a court of law. They also have a direct impact on a company's profitability e.g. where Boeing contracts with Kenya Airways and commits to deliver ten aircrafts in three years time but defaults, Kenya Airways will not be able to execute its strategy of route expansion and long haul flights. Considering funds may have already been committed and revenue as a result of the extra planes projected, loss making is a possibility that will have far reaching consequences on the success of the company and its relationship with Boeing.

2.4 Critical Success Factors

There are potentially a confusing variety of definitions and uses of CSF. Specific relevant CSF vary from business to business and industry to industry therefore success in determining the CSF for any organization is to determine what is central to its future and achievement of that future. Identifying CSF is important as it allows firms to focus their efforts on building their capabilities to meet the CSF's, or even allow firms to decide if they have the capability to build the requirements necessary to meet Critical Success Factors (CSF's). Daniel (1961) proposed the principle of identifying critical success factors as a basis for determining the information needs of managers as an interdisciplinary approach with a potential usefulness in the practice of evaluation within library and information units. In time many academics have applied the methodology increasingly outside the educational establishment.

The business environment is increasingly becoming competitive while today's customer is more informed and enlightened due to expanded media that disseminates consumer relevant information across various channels. According to Rockart (1979), correct choice of CSF will therefore support organization in its approach to survive in a competitive environment. Lamber (2011) argues that this ensures performance measurement, monitoring and reporting are not random processes but adding value to the business. He outlines the benefits of CSF as leading to organization winning Key Performance Indicators and aligning staff members' objectives to that of the organization.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The research methodology describes the procedures used in conducting the study. It discusses the research design, data collection and analysis methods to be used by the researcher.

3.2 Research Design

The research adopted the case study approach as its research design, in this case Kenya Airways. The case study approach is particularly appropriate for individual researchers because it gives an opportunity for one aspect of a problem to be studied in some depth within a limited time scale (Wikipedia, 2010).Kothari (2004:31) citing Selltiz, et al. (1962:50) defines research design as the arrangement of conditions for collection and analysis of data; in a manner that aims to combine relevance to the research purpose with economy in procedure. It is the conceptual structure in which research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data. Research design can be classified by the approach used to gather the primary data.

3.3 Data Collection

The primary data was collected though conducting interviews with three categories of management level staff including the legal, supply chain, and finance departments. On the other hand secondary data was collected through reviewing literature of the existing relevant theories, internal publications of Kenya Airways and related past studies.

3.4 Data Analysis

The primary data was collected through focused interview and data analysis was content analysis as a tool in social sciences to analyze recorded transcripts of interviews with participants. The analysis disseminated who said what, why, to what extent and with what effect and this was used to build knowledge up knowledge in the research. Key was objectivity, reliability, validity, generalizability and replicability.The main reason is that this was a case study to establish the gaps existing between contract management practices and decisions versus the best practices as reviewed in various publications.

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION OF RESULTS

4.1 Introduction

This chapter presents the data collected using the interview guide (see appendices) and analyses them in order to come up with the research findings Due to the descriptive nature of this research, the researcher conducted an empirical analysis of the data by identifying and creating categories, themes and patterns revolving around Contract Management as a critical success factor in strategic decision making at KQ.

4.2 Response Rate of Questionnaires

Mugenda and Mugenda (1999) states that while administering questionnaires, a response rate of 50% is adequate for analysis and reporting, 60% is a good response, while 70% is very good. The response rate realized was 72%.This gives validity to the number of response received by the researcher. Further, the researcher established that majority of the respondents have been working in their respective departments for variable durations. From the responses, majority of the respondents have been in KQ for between 1 and 5 years, a period which is sufficient for one to better understand the operations of the organization, making the researcher confident that they know their work environment well enough to give reasonable opinions on issues relating to the subject matter of this research.

4.3 Response from Key Staff Members at KQ

All the twenty two management level staff members from the legal, supply chain and finance departments were provided with interview guides and as earlier indicated sixteen of them responded as detailed in the following sections.

4.3.1 Respondents Familiarity with Contract Management Strategy

When prompted about how familiar they are with the Contract Management strategy for KQ, majority responded to the affirmative. Out of the twenty two KQ staff members who responded to the questionnaires, 81% of them were positively familiar with the process and 19% were negative. Those who were familiar gave varied reasons, all of which culminated into the fact that their routine operations required knowledge and application of Contract Management strategy. It can therefore be concluded that staff whose daily work require them to interface with a contract at one point or another are very familiar with the contract management strategy.

4.3.2 Employment of World Class Contract Management Tools

The staff members were asked about their assessment of how KQ employs world class Contract Management tools in managing its contracts and it was their general opinion that this is done casually without strict application and without following a structured and consistent methodology. It was noticed that the following themes emerged;

Implementation of Contract Management

Given that Contract Management is new in KQ i.e. less than three years old, it is perceived that the employment of world class Contract Management tools is only just taking root and acquiring its own form within the day-to-day systems of operations KQ. Many respondents are of the opinion that into the long term, contract management will be well embedded into Kenya Airways daily operations and will bear fruits.

Software Tools

With the help of cutting edge technology, the respondents indicated that there are two software applications that assist greatly in Contract Management within KQ and are presently widely in use: Omnidocs is an Enterprise Document Management (EDM) platform for creating, capturing, managing, delivering and archiving large volumes of documents and contents. It also integrates seamlessly with other enterprise applications. Users are able to scan large contract documents and upload into the data base.Omnidocs supports virtual access and multiple user logins.

This software application is intended to minimize paper work of the contracting documents. Oracle is an online Enterprise Resource Planning (ERP) system, which has a Contract Management Module providing a platform for streamlining contract monitoring, execution and tracking. Oracle contracts module supports virtual access and has an automated alert system which is useful especially in expiry notifications.

However, concerns were raised about the minimal application of these internationally recognized software tools, which bordered on apathy. The main reason is that most of the contracting process has not been automated seeing as most of the contract documents are still in hard copy (paper) form.

Ad hoc Application of Contract Management Tools

The respondents admitted that since the Contract Management is in its formative stages of implementation, there are many instances of ad hoc application. This is where Contract Management is applied on a need basis depending on the work pressure. This has meant no consistency and standards to be referred to. The bid size of the company also means that functions are at different levels of applications hence difficult to assess the average rate of application across the business.

Legal Background

The key clauses in a contract are usually of commercial nature and not legal-covering aspects e.g. scope of works, payment terms, and penalties in case of non conformance and related. The staff tasked with ensuring implementation and executions of contract provisions in many cases do not have legal background. It was seen that the suggested legal department be involved in the whole process from drafting the contracts to executing them.

Further, respondents feel that contract drafting should be simplified in terms of wording. Many respondents feel that presently contracts are worded to suite users with a legal back ground. Many users who do not fall into this category therefore find it less easy to read and understand contract clauses.

4.3.3 Contract Management as Key to the Success in Business

When asked about their view about Contract Management as key to the success of the overall business strategy, 100% of the respondents agreed that it is a critical success factor. The responses have been categorized under thematic issues that were raised by the respondents as outlined below; The quality of service delivery on the part of third parties such as suppliers can be greatly improved by efficiently managing the contracts entered into for specified assignments. This establishes methodology and controls in order to track contract deliverables. For instance, once a supplier understands that KQ will not pay for shoddy services, he will strive to do a good job because he understands that the specifications of the contract will be strictly adhered to.

Tracking contract deliverables also facilitates supplier performance measurement which is key to developing supplier improvement plans. Proper management of contracts is perceived as a means of reducing the risk exposure of entrusting an assignment to third parties. Such risks include, but not limited to time frame, where services or goods are delivered without delays that might cost KQ; and contract sum, where KQ is not prone to increased cost variations and maintains proper budget controls.

Contract Management ensures that any disputes relating these risks that might arise in future are curtailed and or minimized. Contracts risks are many and various and failure to effectively manage contracts means exposure to the risks which have a lot of harmful impacts e.g. financial losses. Contracts primarily create obligations to the parties' privy to it with the intention that each party will fulfill his end of the bargain. The respondents emphasized that efficient and effective Contract Management requires accountability from KQ and its suppliers. The performance of relevant staff members or departments can be assessed by the number of contracts that have been successfully closed within a stipulated timeframe. Closure means from initiation, tendering negotiation and contracting. Functions can also be measured on how best they manage specific contract risks to reduce exposure.

4.3.4 Effect of Senior Management Decisions on Contract Management

When the researcher asked the staff members, "How do senior management decisions reflect the importance of Contract Management to business at KQ?" they responded as below; Some of the respondents noted that some of the senior managers in the Finance and Legal departments were not fully aware of the modalities involved in contracting, procedures and processes of Contract Management, thus they frequently interfere with contract performance. Many senior managers take very long to execute contracts leading to delayed contract turn around.

Further, respondents' talk of instances where senior managers have made decisions contrary to existing policy requirements on contracts. On the other hand, some senior managers provided the environment for the process of Contract Management to run smoothly by executing contracts on time. Most of the responses from the staff members in the Supply-Chain department expressed that since key decisions in the department revolve around contracts they receive good support from the senior managers within the function. The level of support from senior management therefore varies from function to function.

The senior managers impacted the implementation of Contract Management positively by making the decision to procure internationally recognized software applications. Although the use of the same has been slow, it is a good gesture for the beginning of the automation process. Funding has been approved for purchase of various soft ware upgrades while management has invested heavily in consultants to improve on system usage and utilization.

The respondents said that the fulfillment of vital contractual obligations on the part of KQ, for example payment of services rendered, had to be done by the approval of senior managers in the Finance department. This further emphasizes the importance senior management has attached to contracting process. It is also a process requirement that contracts be executed by at least a staff at directors' level.

4.3.5 Value for Money from Contract Management

Among other things, the success of a public company like KQ can be judged by the way it creates wealth for its shareholders. It is therefore expected that KQ should employ strategies that give it value for money. To this extent, opinion was divided when the respondents were asked whether KQ gets value for money from Contract Management.

Staff members who totally and moderately agreed that currently KQ gets value for money from Contract Management is 37.5% each, while 25% disagreed. Various pertinent issues were raised to justify these responses; There is a lot of time wastage because the process is prone to ad hoc decisions affecting the successful implementation of Contract Management. This means optimal Value is achieved at very minimal levels because very few contracts are subjected to proper management. While many respondents believe KQ saves money where the contract sum is negotiated to contain the probability of increased costs by suppliers, majority believe this is not consistently done. The slow implementation of Contract Management has also been cited as a contributing factor to KQ not getting value for money from its contracts.

4.3.6 Contract Management Risks Effectively Profiled and Managed in KQ

81% of the respondents disagreed that the Contract Management risks are effectively profiled and managed in KQ compared to 13% who agreed and 6% who were non-committal. It therefore follows that currently the Contract Management risk are not effectively profiled and managed in KQ.

The respondents identified some of the major risks associated with Contract Management in KQ as follows.Since KQ is in the business of airline travel services that exposes it to a lot of safety risks that can paralyze its operations, the respondents explained that KQ is too concerned with these risks at the expense of effectively profiling and managing other critical success factors like Contract Management. It is believed that safety risks have been effectively managed greatly due to the safety sensitive nature of the aviation industry in which Kenya Airways operates.

Majority of respondents however believe that this risk has been over managed leading to some other key risks being overlooked. The respondents said that the quality of service risk is attributed to third parties like suppliers of the services, who are obligated to fulfill best practice. However at KQ, Contract Management starts after award of tender making it difficult to check the quality of service of the supplier.

They believe that this risk should be profiled and effectively managed across the entire contracting cycle i.e. during tendering, negotiation and award as opposed to after award which is the present case at KQ.According to the respondents, the implementation risks revolve around issues such as the time it will take to fully implement the Contract Management strategy; the fear of change by staff members; and, additional costs to successfully integrate Contract Management with the operations at KQ.

4.3.7 Benefits Derived from Effective Contract Management

When prompted about their perception on the benefits derived from effective Contract Management, the respondents brought out the following issues; many respondents believe that there will be streamlined payment processing due to elimination of delays hence inculcating good relations with suppliers of goods and services. The consistency and uniformity that come with Contract Management will also improve efficiency in KQ operations thus achieving value for money.

Effective Contract Management will improve service delivery in terms of time and quality. Due to better planning it improves budget controls leading to cost saving. Effective supplier management and improved performance from suppliers due to contractual obligations. Overally all respondents seemed well aware of the benefits effective contract management will deliver to KQ and believe that KQ stands to benefit immensely if the tools are correctly employed.

4.4 Summary of Research Findings

Further to the foregoing, the researcher summarized the research findings as follows; Most of the staff members are familiar with the Contract Management strategy of KQ. They are aware that it is a new strategy that the company is pursuing as it strives to improve its general operations and relationship with third parties. They are also fully aware of the benefits this strategy will deliver to Kenya Airways if fully implemented.

Contract Management is a critical factor in the success of KQ as a business. This is in view of the fact that KQ needs to interact with the external environment to achieve its objectives by using contracts and properly managing them. For example suppliers of goods and services greatly determine the direction KQ's business is taking. They also directly contribute to KQ's profitability and overall performance through cost base reviews and efficiency improvements in delivery reliability and conformance to quality standards. The implementation of Contract Management in KQ is still at the nascent stages, which requires a lot of sensitization and education particularly to staff members not fully conversant with it. In as much as KQ has procured software tools such as Omnidocs and Contract Management modules in the Oracle ERP towards improving Contract Management, their use is still below capacity.

The key senior managers' decisions affects the process of Contract Management since it involves their input especially when it comes to executing the contracts and signing off the end of a contractual relationship with a third party. That Contract Management can be used as a tool to gauge performance of suppliers, and employees as well as encourage accountability for fulfilling contractual obligations.The Contract Management risks in KQ are not effectively profiled and managed to mitigate quality service, implementation and safety risksCurrently KQ does not get value for money from Contract Management because it is still in its early stages of implementation that is prone to teething problems. The benefits of Contract Management justify the pursuit of relevant strategies that will lead to its successful implementation within KQ.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter synthesizes the data acquired in case study using the outlined research methodology, at the backdrop of the problem statement and objectives of the research in order to draw conclusions and make the necessary recommendations to the subject matter.

5.2 Conclusion

The overall objective of this study is to evaluate the effects of the implementation of Contract Management as a critical success factor in strategic decision making at KQ. It is intended to answer the research question, "Is Contract Management considered a critical success factor in decision making?"

Considering the research findings, the full implementation of Contract Management in KQ will have potentially significant implications as a critical success factor in decision making. With time, as it continues to evolve, it can be inferred that it will be considered at every point in the process of decision making in KQ.However at the moment, the research reveals that Contract Management has not yet been recognized as a critical success factor in decision making. Its implementation is at the formative stages, where other critical success factors still override it in decision making.

5.3 Recommendations

From the research findings and the conclusions that have been made, the following measures are recommended; automating all the contracts that KQ is party to is paramount for the successful operation of Contract Management system. Senior and middle level staff members should be fully educated on the benefits of Contract Management so that it is appreciated that the process is a critical success factor in the business of KQ. In this regard, information centers should be set up to provide stakeholders with adequate information concerning Contract Management strategy of KQ.

Staff members should have access to the software tools in order to make the implementation process efficient and visible to everyone in the organization. Ownership of the process is key to the overall success. In order to improve the quality of service delivery, there should be consistency in the application of Contract Management. This can be done by documenting the whole process in a policy document to be availed to all the existing and new staff members. In addition, decisions of senior management should be consistent with the Contract Management policy, to avoid delays and prevent increased contract sum variation as a measure of budget control. KQ should have a policy where it avoids open ended contracts that are subject to change by third parties, because they will compromise the consistency of Contract Management. For instance an open clause of the contract sum may put KQ at the mercy of suppliers who can inflate costs to suit their needs at the expense of KQ's business.

Contract Management should begin from the time of selection of third party persons to deliver the goods or services, and not after the award of contract. This mitigates the risk of poor quality of work since the supplier will be aware that there is a monitoring system in place to check his performance from the onset.

5.4 Areas of Further Study

During the course of the study, certain areas were found wanting and required further research. Further study may be on the assessment of the role of information technology on the implementation of Contract Management. A linkage between the use of information technology in contracting and the overall performance of a business entity should also be explored.

5.5 Limitations of the Study

Time was a key constraint during the study. The researcher had to balance between normal work duties at Kenya Airways and conducting the research. This at times resulted in work related key performance indicators not being achieved satisfactorily as a result of inadequate attention being given to them. Time also affected the number of respondents due to limitations of accessing a higher number. Getting respondents to be interviewed was another challenge. Many had very little time to dedicate to the researcher. Others went on leave or attended to off office functions leading to missed appointments that had been earlier firmed.

Respondents wanted an assurance as to confidentiality of the information they were disclosing. Others were not sure that the researcher would live to the commitment to use the information provided exclusively for the purposes of the research. This made it difficult for some respondents to open up and freely respond to all the questions put to them. The cost of printing and circulating the guides was also a constraint. It is Kenya Airways policy that all company resources are not to be used on non company activities. The researcher therefore had to access printing and photocopy facilities off the company premises at a cost.

5.6 Implications of the Study on Policy, Theory and Practice

A lot of theory exists on effective Contracts Management and its benefits as a critical success factor in organizations. The existing theory is however general and is rarely specific to the aviation industry. Global best practice emphasizes use of technology in contracting and contract performance management. Most organizations in Kenya have however not adopted this approach going by the existing theory of this area in Kenya.

This study outlines the benefits that an organizations stands to gain through effective contract management. It outlines that contract management must be a key strategic focus if operational zing it is to succeed. Kenya Airways could therefore review its contracting policy with the input of this study and improve on the shortfalls identified. Being the national carrier of Kenya and third largest airline in Africa by market share and route network, KQ is a pace setter in best practice not only to the aviation industry in Kenya but in Africa as a whole. Successful implementation of effective contracting policy will therefore benefit both the industry and the region due to shared learning's from a leading industry player.

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APPENDICES

Appendix 1: Introduction letter to the Interview Guide

LETTER OF INTRODUCTION

Henry A. Nyangor,

P.O. Box 17308-00100

Nairobi.

To Respondent,

I am a post graduate student at the University of Nairobi conducting a research on "*Contract Management as a Critical Success Factor in Strategic Decision Making (A Case Study of Kenya Airways Limited)*" as partial fulfillment of the requirement of degree of master of Business Administration

DECLARATION

The information collected through this interview guide as well as your identity shall be treated as confidential and will only be used for research purposes only.

Your assistance in the completion of this interview guide will be highly appreciated.

Appendix 2: Interview Guide

INTERVIEW GUIDE

1. Which department are you currently working in? ……………………..
2. How long have you been working in the department stated above?

…………………..

3. Outline how familiar you are with the Contract Management strategy of KQ……………………………………………………………………………
4. How do you assess employment of world class Contract Management tools in managing contracts at KQ?..
5. Do you view Contract Management as key to the success of the overall business strategy of KQ? ……………………………………………………

Why……………………………………………………………..

6. How do senior management decisions reflect the importance of Contract Management to the business at KQ?..
7. Do you believe KQ gets value for money from the many contracts it has in the business?...

Why?...

8. Do you agree that contracts management risks are effectively profiled and managed in KQ?...

Why?………………………………………………………………

9. How do you rate the efficiency of the process of contracting works in KQ?

……………………………………………………………………………

10. What is your general perception of the benefits derived from effective Contract Management in KQ?

…………………………………………………………………………

Thank you for your participation!

Appendix 3: Authority from the University to collect data.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAM – LOWER KABETE CAMPUS

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE: 26/07/2011

TO WHOM IT MAY CONCERN

The bearer of this letter HENRY NYANG'OR

Registration No: D61/70052/08

is a Master of Business Administration (MBA) student of the University of Nairobi.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate if you assist him/her by allowing him/her to collect data in your organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA OFFICE
P. O. Box 30197
NAIROBI

DR. W.N. IRAKI
CO-ORDINATOR, MBA PROGRAM

Appendix 4: Kenya Airways letter granting request to collect data.

Kenya Airways
The Pride of Africa

TI/R.2.1/011

8th August, 2011

Henry Nyangor
P.O. Box 17308
00100-NAIROBI

Dear Nyangor,

SUBJECT: REQUEST TO CARRY OUT RESEARCH AT KENYA AIRWAYS

This is in response to your request to carry out a research project at Kenya Airways on the subject below.

We understand that you would like to carry out a research on Kenya Airways and therefore you would want to administer a questionnaire/interview staff on the subject **"Contract Management as a Critical Success Factor in Strategic Decision Making at Kenya Airways Limited"**

We further understand that this research project is a partial fulfillment of your studies.

We have considered your request and are pleased to advise that the request has been granted on the following conditions;

a) The findings will be used purely for research purposes and therefore shall not be published in the press or other publications without prior authorization from the Kenya Airways Group Managing Director and the CEO.

b) The responsible Director or his appointee will review the report before submission to the university.

c) You will not disclose any matter regarded as confidential in the process of carrying out the research.

d) You will provide one copy of the final report to the KQ library.

Yours sincerely

Dr. Mbithe Anzaya
Head of Leaning and Development

Appendix 5: Kenya Airways Data Collection Approval Guide.

Kenya Airways
The Pride of Africa

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Data Collection Approval Guide

Date: 8th August, 2011

Reference Number: RP/002-11

Name of Student: Henry Nyangor

Project Title: Contract Management as a Critical Success Factor in Strategic Decision Making at Kenya Airways Limited

	Question	Yes	No
1	The data is for the completion of a certificate program		No
2	The data is for the completion of an undergraduate degree program		No
3	The data is for the completion of a masters degree program	Yes	
4	It is a self-administered questionnaire	Yes	
5	Are respondents required to provide their personal details?		No
6	Are respondents required to state their income?		No
7	Are respondents required to state their job grade or category?		No
8	Are respondents required to state their Age?		No
9	Are respondents required to give information on KQ strategies?		No
10	Are respondents required to give information on KQ strategies for 2006/7 year or earlier?		No
11	Are respondents required to give information on KQ strategies for 2007/8 year or later?		No
12	Is the information required available in 'the public domain'?	Yes	
13	Are you a KQ staff member?	Yes	
14	How many people would you like to complete the questionnaire?	30	
15	Have you attached a copy of the questionnaire?	Yes	
16	Have you attached a copy of a letter from your institution?	Yes	
17	Will the findings of the study/project be available to KQ	Yes	

Data collection approved: 8/08/11

Data collection declined: ______

Reasons: ______

Please note: Please ensure you do this in your time and not 'Company' time. This means that you will collect data during your free time and that respondents will give you the information required and/or answer your questionnaire during their free time and not company time. That way, it will not affect your or your respondent's performance and productivity. While you collect data for your studies, please remember that the staff are under no obligation to give you information for your individual studies. Also, please ensure the process does not antagonize staff. Good luck with the data collection and with your studies.