

**MANAGEMENT PERCEPTION OF PERFORMANCE CONTRACTING IN THE
UNIVERSITY OF NAIROBI**

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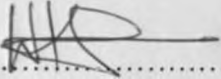
**A MANAGEMENT PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE
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Declaration

I hereby declare that this is my original work and has not been submitted for any award at any other institution.

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Dedication

I dedicate this work to my wife Kate, Son Titus and Daughter Dorcus, who offered me unconditional love and support throughout the course of this project. Without their lifting me up when this project seemed interminable, I doubt it should ever have been completed.

Acknowledgement

From the formative stages of this thesis, to the final draft, I owe an immense debt of gratitude to my supervisor, Mr. George Omondi for his invaluable support towards this project. His sage advice, insightful criticisms, careful guidance and patient encouragement aided the writing of this project in innumerable and invaluable ways.

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To each of the above, I extend my deepest appreciation.

Abstract

Performance contracting has been touted as a key agent of change and is now being used as one of the public sector reforms to improve service delivery in state corporations and ministries in Kenya. However it has been observed that performance contracting is faced with huge resistance from employees in Kenya. This study seeks to determine managements' perception of performance contracting and the factors influencing these perceptions at the University of Nairobi. Perceptions are measured at three levels: Usefulness of performance contracting to the university, Usefulness of performance contracting to staff and Appropriateness of Performance contracting processes. Hypothesized factors affecting perception of performance contracting are grouped into three: Employer support, Performance contracting processes and Interpersonal relations. A fourth factor which was also tested was personal traits. The paper adopted a descriptive research design and carried out a census. The respondents were members of college management boards, SWA management board and senior officers at the central administration. Data was collected using a semi-structured questionnaire and analyzed using SPSS. The main tools of analysis included: frequencies, mean, standard deviation and correlation analysis. Presentation was done using tables and charts. The results revealed statistically significant correlations between perceptions on usefulness of performance contracting to the university with: employer support and interpersonal relations. Also, significant correlations were found between Perceptions of usefulness of performance contracting to staff with: employer support; performance contracting process; and Interpersonal relations. Perception on the process of performance contracting had the greatest and the only significant relation with the performance contracting process factor. Correlation analysis revealed that impact of respondents' profiles on the relationship between management perception of performance contracting and factors affecting this perception are not significant.

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LIST OF ACRONYMS

USA –United States of America

PE – Public Enterprise

CEPES - Centre European pour l'enseignement supérieur (European Centre for Higher Education)

UNDP – United Nations Development Program

BSC – Balanced Score Card

OECD – Organization for Economic Cooperation and Development

SWA – Students Welfare Authority

ANOVA – Analysis of Variance

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CHAPTER 1: INTRODUCTION

1.1 Background to the Study

1.1.1 Performance Contracting

Performance contracting was first started in France in 1960s and has been adopted by many countries ever since. In Africa Nigeria, Gambia and Ghana have implemented performance contracting (Kobia, 2006). A performance contract is an agreement for mutual understanding between an employer and an employee within the sub-field of performance management. In other terms, it is an agreement between two parties that specify their obligations towards each other. Kumar (1994) as quoted in Kobia (2006) defines it as a memorandum of understanding between parties that is focused on evaluative mechanisms of their input and output. Commonwealth Secretariat states that performance Contract (PC) is a contract between the owner of an enterprise on one side and the management of the enterprise on the other, setting out certain targets to be achieved in a given time frame. It also enumerates the mutual obligations of the two parties in achieving the targets set in the contract.

Nellis (1989) describes performance contracting in the public sector as a freely negotiated agreement between government, as the owner of the public enterprise and the enterprise itself in which the intentions, obligations and responsibilities of two parties negotiated and then clearly set out. National Partnership for Re-inventing Government (NPR), Department of Energy, USA, observes that performance contracting should give a basis for appraisal and rewards. Republic of Kenya (2005) says that excessive controls and regulations, political interference, brain drain, poor management and mismanagement hinder performances. Malathy (1997) notes that performance contracting is an alternative to privatization. Organization for Economic Co-

operation (OECD) (1999) says that performance contracting should improve efficiency and effectiveness. England (2000) observes that performance contracting comprises determination of mutually agreed performance targets and reviews and evaluation of periodic and terminal performance. Mapelu (2005) defines performance contracting as a way of acquiring quality goods and services within available budgetary resources. Kiboi (2006) observes that performance contracting is a devolved management by outcome rather than management by process.

According to Fowler (1990) performance contracts have their origins in the general perception that the performance of the Public Sector, in general, and government agencies, in particular, has consistently fallen below the expectations of the public. The problems that have inhibited the performance of government agencies are largely common and have been identified as excessive controls, multiplicity of principles, frequent political interference, poor management and outright mismanagement. Performance management concerns everyone in the business and not just managers. It rejects the cultural assumptions that only managers are accountable for the performance of their teams and replaces it with the belief that responsibility is shared between managers and team members. Managers and teams are jointly accountable for results and are jointly involved in agreeing to what they need to do and how to do it, both in monetary performance and in taking action (Armstrong and Baron, 2004).

According to Republic of Kenya (2005), information booklet on performance contracts in Public Service, the recent Public Enterprises (PE) reform, a performance contract is advocated as a mechanism to smooth the Public Enterprises -government interface and increase the autonomy of Public Enterprises. The view is that the performance contracting system forces the government to

set out what it expects from the PE at the beginning of the year and should therefore discourage the tendency to interfere in its day to day operations during the year. Performance Contracting also forces public enterprises to set out its requirements of assistance from the government at the beginning of the year. They are an alternative to privatisation of public enterprises, especially those that are not profit making.

Performance contracting is one of the public sector reforms introduced to improve service delivery in state corporations and ministries since 1993 in Kenya. But it was first formulated in 2003. State corporations have been criticized for inefficiencies and mismanagement. This inhibits the realization of sustainable economic growth. There is misuse of funds due to lack of proper internal management and control. Performance contracting was introduced in 2004, with sixteen state corporations, being selected to pilot the process of performance contracting. However, performance contracting has been met with huge resistance from employees in Kenya. Most of them have even refused to sign performance contracts; for instance, Kenyan teachers refused to sign performance contracts, judges were also reluctant signing performance contracts (Opiyo, 2008).

1.1.2 Perception

Perception is the process by which people interpret and organize sensation to produce a meaningful experience of the environment they live in. It is a complex cognitive process and differs from one individual to another depending on the needs, values and expectations of the individual. Perception describes one's ultimate experience of the world and typically involves further processing of sensory input. The perception of two individuals may differ in many ways. They could differ in physical characteristics such as height, weight and complexion. They could

also differ in background characteristics like level of education and training. But the most important could be in their perceptions (Senge, 1999).

Senge (1999) adds that people respond to situations on the basis of their perception about reality rather than the reality itself. Perceptions may also differ from organization to organizations. Some organizations perceive that aggressive and dominating culture and the maintenance of conformity of all employees to certain beliefs and values is essential for their success. But some organizations perceive that cooperation, team culture and preservation of individual's identities are crucial for their success

According to Senge (1999) organization is considered as a structural process in which individuals bound together in a formal relationship and interacts with each other to accomplish certain common objectives. The success of any organization depends highly on the efficiency, role performance and job satisfaction of its employees. The study revealed that factors like affiliation, recognition, behaviour of superior and self perception of job responsibility had positive and significant relationship with the job performance. The overall level of job performance was moderate. He continued to observe that the personal traits of employees of educational institutes like age, education, monthly income, experience, and weekly hours, opportunity for advancement and rewards and punishment had positive but non-significant relationship with job satisfaction.

Job satisfaction is the degree to which people like their jobs and it can be regarded as one aspect of life satisfaction, experiences on the job influence, perceptions of the job and vice-versa. If the

job or work assigned to an individual is interesting, meaningful, challenging and satisfactory he will have favourable attitude for it and his motivation will be higher. Job satisfaction affects job performance, employee turnover and absenteeism. High job satisfaction results into high work performance, less employee turnover, and absenteeism.

In Senge's (1999) study, the employees were professors, employees and principals. Those having positive perception performed better in their work, whereas those having negative perception were a bit dissatisfied and it affected their performance of work. A Job perception of employees of educational institutes is influenced by several factors such as personal traits, working conditions and environment around and within the job. Thus, it can be concluded that job perception is a multi-dimensional phenomena where it is not so easy to assign one factor as the sole determinant of performance of the job

Simultaneously, more work needs to be done to link the perception of employees of educational institutes with the organizational context in which they work with the social, political and economic context of educational service. The factors such as stability of job, income, experience, designation and responsibilities are identified as having very close relationship with satisfaction levels. Thus it can be concluded that perception regarding job is closely related to performance of work by employees (Senge, 1999).

Kotler (2000) defines perception as a process by which individuals select, organize and interpret information inputs to create a meaningful picture of the world. He further observes that motivation is also perceptual. In addition, Kotler further says that it is the process of receiving,

organizing and assigning meaning to information or stimuli detected by our five senses. In other words, it is an approximation of reality because what we perceive is the meaning. Kelly (1955) defines perception as personal constructs—channels that employees conceptualize and anticipate events. However, this study adopts the definitions of perception by Bradely (2006) and Mullins (1999) that relate the concept of fairness at all levels to organizations success. According to Williams (1997) there are several ways of measuring perception: Likert Scale, Semantic Differential Scale, Guttman's Scalogram Analysis, and Thurstone Scale Technique. This study utilized Likert scale.

1.2 University of Nairobi

The University of Nairobi is a pioneer institution in university education in Kenya and in the region. Established in 1956, the university has upheld its tradition of delivering diversified academic programs and specializations in sciences, technology, humanities, social sciences and arts. The University has expanded exponentially in terms of the number of students, staff and physical facilities. From about 2,580 undergraduate students and 184 postgraduate students in the 1970-71 academic year, to its current population of 36,000 students, 7,000 of which are postgraduate students pursuing their studies. In the same manner, the number of teaching staff has increased to 1,330 and an administrative and support staff of about 4,000. Over 90,000 graduates have passed through the University of Nairobi. The University has seven campuses located within the city. There are Six colleges comprising thirty three (33) faculties, schools and institutes (appendix 1) (University of Nairobi calendar 2009-2010).

The University of Nairobi is the largest spender among all public universities in Kenya with an annual budget of well over Kenya Shillings 8 billion. In order for higher institutions to deliver

quality services in teaching and research, they require astute management and visionary leadership. According to Unesco–CEPES private universities are not a new phenomenon in Kenya, but their rapid growth over the last five years is raising questions about standards in higher education. Kenya today has eight public and 17 private universities (with either full or interim charter), and 20% of a total of 150,000 students attend private institutions. Now public universities have joined the fray by opening new colleges in different parts of the country and introducing ‘parallel’ degree programmes in response to spiralling demand for higher education.

The growth of the private university sector in Kenya has been fuelled by several factors including limited opportunities available in public universities, regular closures of state-funded universities, and the desire to complement government-managed higher institutions of learning. Also, interestingly, two-thirds of the new universities are run by religious organizations, mainly Protestant churches, that try to attract their followers in an effort to ensure that as young minds mature academically they stay within the faith. A decade ago private universities were perceived to be academically inferior to public universities. Today, they are seen as mainstream institutions offering instruction of comparable – or even higher – quality than public universities. Whether this is the case or not, has not been established. What is known is that growing numbers of school-leavers will go to great lengths to obtain much-coveted Public or private University degrees (University Word News, 2010).

Public universities are subject to specific laws under which they were created. Thus coordination of operations across universities as well as capacity to make autonomous decisions has proved to be a challenge in public universities. Funding has also been a major hindrance among public

universities. However, this problem has been mitigated by the introduction of the module II programs where students pay school fees at commercial rates. Additionally, universities have now introduced Income Generating Activities (IGAs) whose sole function is to raise the much needed funds for the universities. In responding to the general poor performance among state corporations, the Kenyan government has put all the parastatals under performance contracts. University of Nairobi is one of the state corporations that have implemented performance contracting. This paper examines the perception of management on performance contracting and the factors informing such perceptions.

1.3 Statement of the Problem

A performance contract is a tool expected to instil an attitude of accountability within the public sector and govern the relationship between government and the public enterprise management by helping to formalise the corporate plan and mutual obligation of the public enterprise and the government. It requires public enterprises to strictly adhere to well defined performance objectives and targets under performance, helping measure the performance of public enterprises against these targets in a transparent and systematic manner and providing appropriate monetary rewards and penalties to induce management to achieve the agreed goals, including adjustments in the financial support from the government.

The introduction of performance contracting was intended to improve the viability of these organizations and make them more efficient in the delivery of services. However, positive perception of the performance contracts by the management is key to realizing organizational objectives. Callaghan (1994) observes that positive perception of appraisal related changes by the employees is crucial towards the overall success of the organization because this perception

will act as an incentive and source of motivation to them. Negative perception, on the other hand, is a form of resistance to change that will demoralize the employees and will contribute significantly to low outputs by both the employees and the organization, driving the organization into insolvency. Shirley (1998) agrees with this position by noting that perception of performance contracting by the employees in the public sector seems a logical solution to the myriad of problems faced by the sector.

There are many studies on perception and performance contracting (Awori, 2006; Kachero, 2006; Kiboi, 2006; Kobia, 2006; Korir, 2006; Lagat, 2006; Ogwayo, 2007; Othieno, 2006; Richu, 2006). Most of the studies have focused on the relationship between performance contracting and service delivery. Awori looked at the general appraisal practices in state corporations in Kenya, Kachero studied the employees' perception of state promotion processes at the University of Nairobi, Kiboi worked on the perception of performance contracting by the management of Kenya Power and Lighting Company, Kobia assessed the general experience with performance contracting in Kenya including the private sector, Korir investigated the impact of performance contracting in state corporations at the East African Portland Cement Company Limited. Lagat, on the other hand, looked at the factors necessary for designing good performance contracts for state corporations. Ogwayo studies employee response to performance contracting at the Kenya Electricity Generating Company. Othieno investigated the process and experience of implementing performance contracts at the Kenya Power and Lighting Company, while Richu surveyed teachers' perception of performance appraisal practices in public secondary schools. Therefore, no study has focused on management perception of performance contracting in the University of Nairobi.

1.4 Objectives of the Study

The following were the objectives of the study:

- i. To determine the perception of management in University of Nairobi towards performance contracting.
- ii. To determine the factors that influence perception of management in University of Nairobi towards performance contracting.

1.5 Significance of the Study

The study findings will contribute to the ongoing debates on the perception of employees on performance contracting in Kenyan public corporations, to the generation of knowledge on performance contracting, and also in policy formulation especially at the institutional level. The following are the potential beneficiaries of the findings of the study:

- i. The University of Nairobi and other public Universities

Following the findings, the University of Nairobi will be in a position to restructure their performance contracts in such a way as to avoid negative perception by the employees. The university will also be in a position to address the various issues that lead to negative perceptions of performance contracts.

- ii. The Government of Kenya

The Kenyan government will be better informed when formulating performance-related policies and regulations for public corporations.

- iii. Academics and researchers

The study will add some knowledge to the existing body of knowledge and open up areas for further research.

CHAPTER 2: LITERATURE REVIEW

2.1 Performance Contracting

Performance contract is a documented and consented commitment between the employer and the jobholder to attain specific objectives in return for a specified reward or sanction. The purpose of this documented contract is to give visible evidence of commitment and accountability for set results. With accountability, there will be empowerment of workers who will in turn use their minds and energy to implement the change, and even make personal sacrifices and support of its implementation (Kotler, 1996). According to United Nations Development Program (UNDP) (2005) more developing countries are undertaking efforts to refocus the capacities of the public sector to meet their economic, social and environmental challenges. There is also increased emphasis on inefficiency, effectiveness, transparency and accountability in the civil service. Boards of Directors of public enterprises should also improve transparency by strengthening internal controls, carrying out independent external audits based on international standards disclosing any financial assistance from the state and producing aggregate performance reports (Republic of Kenya, 2005).

Leroy (2000) states that around the world, public enterprises are often accused of inefficiency. This is because public enterprises are a hybrid sharing characteristics of government bureaucracies and private enterprises. Public enterprises have to offer acceptable products in the market while being responsive to the needs of dominant political forces and are subject to the constraints and opportunities afforded by being part of the civil service chain of command. Given the necessity of trade offs between these two sets of pressures, it is not only surprising but positively predictable that the outcome will often be suboptimal by the standards of one side or

both. Public enterprises often operate under bureaucratic systems that control processes rather than outcomes, procurement patterns for example typically mandate formal bidding procedures and multiple procedures and multiple official and ministerial approvals regardless of economic cost (Pettinger, 2001).

Most governments either lack the organisational capacity to control by results or find it difficult to do so. They try to compensate for this by controlling a variety of internal processes instead. The result is a high “quantity” but low quality of government control over public enterprises (Ramamurti, 1991). By moving towards *a posteriori* controls, the contracts were expected to raise the quality of control, while lowering that quantity. It was hoped that by doing so they would raise both managerial accountability; thereby overcoming the unpleasant choice (trade off) between accountability and autonomy. In other words, these contracts were expected to clarify objectives and reconcile priorities ex-ante so that managers of public enterprises could be held unambiguously accountable ex-post for achieving those objectives, uninhibited by rigid bureaucratic rules and regulations and ad hoc government interventions (Mallon, 1983).

In performance contracting, the performance criteria included in the contract must be clearly defined and easily understood, fair to the manager that is, it should encompass only areas within the control of the public enterprise management and that evaluation should be fair also to the country such that management must not be rewarded for actions which, though may indicate improved performance according to the criteria chosen, does so at the cost of the nations’ overall welfare (Drucker, 1999). From the institutional point of view, preconditions set on performance targets should be negotiated with public enterprise, management at the beginning of the year and

not imposed arbitrarily, from the top by the government, managers must be left free to manage within the agreed parameters, performance at the end of the year should be judged systematically against targets negotiated at the beginning of the year, have a balance in the availability of information between the evaluator and the evaluatee and, finally, evaluation should be carried out by an independent body with performance being linked to incentives or disincentives. Incentives or sanctions linked to results ought to be an integral part of any reform and they need not always be pecuniary in nature (Trivedi, 1987).

The system of ranking public enterprises on the basis of their performance with regard to their contract has been found to be very effective. A precise ranking is a great motivating device. The experience of Korea and Pakistan shows that this is not merely a theoretical possibility but a viable and feasible policy option. According to Drucker (1995) in industrialised countries, a number of different unrecognized views exist as to the appropriate function of the state owned enterprises. Some schools of thought have the view that the principal justification for public enterprises is a means of overcoming some of the imperfections in the markets of the country. Others are of the view that low performance is due to especially high risks, imperfect information, external economies, monopoly or any other well known causes of such failure.

In most countries, governments periodically review their strategic objectives and periodically restate their priorities such as expanding exports, holding down inflation and increasing productivity. With such explicit goals, governments with a well developed private sector are often found exhorting their private firms in much the same way as they exhort their state owned firms. Goodman (1977) looks at the process of privatisation of state corporations/ enterprises to

improve efficiency. Critics are however concerned that private ownership does not necessarily translate into improved efficiency. More importantly is that private managers may have no compunction about adopting profit making strategies or corporate practices that make essential services unaffordable or unavailable to large segments of the population. A profit seeking operation may not for example, choose to provide health care to the indigent or extend education to poor or learning disabled children. It is further noted that managerial accountability to the public's interest is what counts most, not the form of ownership. The problem is therefore not private ownership but the controls and performance measurement of the private owners.

There are a number of approaches to measuring the performance of a government agency. The appropriateness of the performance evaluation approach depends on the objective of the performance evaluation exercise. Approaches to performance evaluation of government enterprises can be appropriately categorised as *ex ante* performance versus *ex post* performance. An *ex ante* performance evaluation exercise is based on a comparison of achievements against the targets agreed between the evaluator and the evaluatee at the beginning of the exercise. This involves some sort of a formal agreement at the beginning of the year in which targets in key performance areas are agreed upon by the two parties. Most performance appraisal exercises in professionally run organisations involve performance evaluation on the basis of the targets agreed on an *ex ante* basis (Kotler, 2000).

An *ex post* performance evaluation exercise, on the other hand, is based on a selection of criteria and levels of targets by the evaluator at the end of the year. It is not necessary that these criteria be the ones that the evaluatee was pursuing during the year. This is the kind of performance

evaluation exercise undertaken by researchers looking at historical data. As public enterprises commit themselves in performance improvement, the government also should commit itself to support the enterprise to meet its targets.

2.2 Management Perception

Performance contracting is multi-faceted. It is measured in terms of output and outcome, profit, internal processes and procedures, organisational structures, employee attitudes and original responsiveness to environment. Performance contracts have been viewed as a management process that is supposed to improve staff performance (Armstrong and Baron, 2007). In Denmark, contract management was introduced in 1992 and accordingly to be a study on public sector performance contract by the Ministry of Finance, Denmark, and a core study of the Danish National Board by Industrial injuries by Carl George Rose, performance contracts are a powerful tool that motivates managers and employees to live up to the contract requirements due to its nature as a commitment with another party. Contract management has been an important instrument for the implementation of performance management. It is used to improve target setting and follow-up on results.

Boston Institute of Development Economies (2007) asserts that to ensure performance improvement through performance evaluation, at least two conditions must be fulfilled. First it is important to use the appropriate evaluation methodology. If the objective is performance improvement, then we evaluate performance of agency managers on the basis of ex ante agreements regarding targets. It is important to design an interrelated system for performance improvement that is performance information system, performance evaluation system and performance incentive system. Performance contracting aims at improving performance in

management practices in comparison with past practices. The aim is to have well defined duties without overlaps, measurable activities influenced by actions attributed to the organisation.

Performance contract must be built against the framework of the organization's strategic plan. This means that the achievement of the strategic plan is the vision of the organization. Kotler (1996) asserts that this vision is what gives employees a direction; it aligns, and inspires actions and commitment. Without this vision, Kotler (2000) says, the transformation effort may be impossible. The creation of a vision is encouraged as it enhances the creation of a mental model that bears the shared vision. It is this mental model that brings about the desired change in individuals and ultimately the organization.

Historically, performance measurement systems have been financially based. This has a limiting effect on the criteria used to measure and assess performance. To overcome these limitations, performance measures based on a range of non-financial measures have been suggested. Among the potential performance measurement systems that can be utilised, the Balanced Score Card (BSC) has been advanced in the literature as a tool that overcomes deficiencies of financially based performance measurement systems. According to Kaplan and Norton (1992) the BSC concept is based on notion that managers need a balanced set of measures covering financial, customer innovation and learning and process areas to manage effectively. The score card is used to translate on organisations mission and strategy into a comprehensive set of performance measures that enables organisations to track, short term financial results while simultaneously monitoring their progress in building the capabilities that generate future growth.

In contrast to financial performance measurement systems, the Balanced Score Card puts strategy and vision, not control at the centre. It establishes goals but assumes that people will adopt whatever behaviours and take whatever actions are necessary to arrive at the goals (Kaplan and Norton, 1992). Kaplan and Norton divide the Balanced Score Card into four quadrants of measures: financial, customer, internal business processes, and learning and growth. Organisations should modify this model to reflect unique characteristics of the organisations such as cultural aspects, strategic planning, horizon and the nature of operations. While the initial concept was based around performance measurement subsequent developments focused on the BSC as a strategic management tool. Kaplan and Norton (1992) observed that managers were using the BSC as a central organising framework based around four key management processes namely clarifying and translating the strategy, communicating and linking strategic initiatives and finally enhancing strategic feedback and learning. Balanced Score Card can also be used as a tool to communicate information to external stakeholders.

Several dynamics inform the success or otherwise of the performance contracting process. First, Performance contracts imply agreement between two parties. The concept of Performance Contract is a contract between the state on one side and the management of the state enterprise on the other, setting out certain targets/ results to be achieved in a given time frame. This then means that conformity to the contract is required from the two parties in order to guarantee success. Secondly, it also enumerates the mutual obligations of the two parties in achieving the targets set in the contract.

In its very nature Performance Contract requires preparation of document and the signing of such

document which will constitute a contract between the parties to the agreement. Performance Contract has also been advocated as an alternative to privatization of State Corporations especially in the case where these Corporations are financially viable (OECD, 1999). Although performance based contracting will likely be the norm, the relationship between the government and the workers must be defined and built. Further there has to be a culture change to convince everyone involved that performance based contracting can work well.

There are some institutional problems which equally need to be addressed to avoid most workers and managers beliefs that they are being witch hunted. It is debatable how much trust and confidence the two partners have in each other before the work on performance contract has begun. Therefore the process needs to be perfected. Developing a governance structure and defining the expected results and performance matrices is important so that it is not perceived by the public that politicians are using the process to sack some individuals to replace them with their own. The officials must understand the culture and purpose of performance based contracting. There is a big culture shift that underlies any of this succeeding. The government needs to start out smaller and more fundamental (Lienert, 2003).

For any reform measure to be effective, it must be acceptable to those who are involved in the implementation process. In an environment where the implementers are adequately educated in the field of modern management techniques and are prone towards controlling the public enterprises, the need for attitudinal change is of utmost importance. The process of preparing the contract through analysis, discussing and inter-organizational communication through all interested parties, is as valuable as the end product of the exercise, that is, the contract. In

accordance with Common Law Principles, one party to the contract cannot impose changes without consent to the other. Therefore various board of directors of state corporations, selected group of workers and executives should be involved, get their acceptance or views before referring back to the performance contract for further negotiations or for signing the contract. It is by such involvement in the whole exercise that all will be committed to the target fixed (RBM Guide, Kenya 2005). It follows that a typical performance contract system should have three subsystems: performance information system; performance evaluation system and performance incentive system. These three systems may be grafted onto existing institutions or separate agencies set up specifically to handle the tasks (OECD, 1999).

The rapid expansion of Universities and other institutions of higher learning in student numbers, campuses and courses offered is making management increasingly complex and brings with it greater demands for top management. This is just a reflection of developments world over where there is a growing demand for organizations to become more joined-up. Almost everyone can see the problems caused by different departments or organizations acting in isolation, or even in conflict with each other, but apparently incapable of changing the situation. Indeed, the problem has become so widespread that it has been named "Silo Mentality", where people perceive their role in the organisation purely in terms of the activities within their own, local Silo. There is often an urgent need to transform people's perception of their role in the organisation, because the simple fact is that individual high performing managers or even departments do not by themselves create a highly successful organisation. Whether or not, performance contracting reduces this problem is a question that begs for an answer (Lienert, 2003).

2.3 Factors influencing management perception on performance contracting

A multiplicity of factors has been identified as influencing the perceptions of employees of performance contracts. Among them are job satisfaction, demographic factors, management practices, employer support and interpersonal relations between the supervisor and the employee, information about performance contracting, among others. These factors are described below. According to Weiss (2002) perceived job satisfaction is the “extent to which an employee expresses a positive orientation towards a job”. Job satisfaction describes how content an individual is with his or her job. Job satisfaction has also been defined as a pleasurable emotional state resulting from the appraisal of one’s job, an affective reaction to one’s job and an attitude towards one’s job. Weiss (2002) argued that it is an attitude that should differentiate between the objects of cognitive evaluation which affect (emotion), beliefs and behaviours. It is often described as the quality of life at work as experienced by the employee, and the condition that could be promoted by social responsibility programs executed by the employer. Therefore, the extent of job satisfaction by the employee will influence the way the employee will receive performance contracting system.

In addition, demographic variables such as age, gender, race, and education have an effect on job satisfaction (DeVaney and Chen, 2003). It has been shown, for instance, that older workers are more likely to be satisfied than younger workers. Work related variables such as whether the job is interesting, good relations with management, job security (permanent or contract jobs), higher pay, a sense of control over one’s work were identified as important factors underlying job satisfaction, hence influencing employee perception of performance contracting (Miller, 1980).

Herzberg (1959) observes that employees appreciate being involved in decision-making. This is because they are able to own the entire process. In Japan, the "ringi" system advocates for all employees in an organization to give inputs in policies that affect them (Burnes, 1996). Given that a degree of decision-making will be allowed by the performance contract, each employee who signs the contract will have to use his skills and whatever else is at his disposal to perform his work. Employees will experience meaningfulness in their work. Herzberg's theory advocates the Hygiene factors, or factors that do not affect the content of the task at hand but the environment in which it is performed. These include good supervision (Herzberg, 1959) and the fact that supervisors should dispense recognition for work well done, and skilfully distribute work so that each employee's skills are adequately utilized (Herzberg, 1959). Due to the fact that supervisors will only be able to achieve their goals through their subordinates, they will be compelled to encourage their workers, reward them for good performances and make sure that their skills are adequately developed and utilized.

According to Kobia (2006), strategic planning processes influence the perception of employees of performance contracting. Every state corporation should develop a Strategic Plan and strive to achieve its mission and objectives. Strategic planning in all public sector organizations should therefore aim at strengthening and looping linkages with policy, planning and budgeting. The human resource function needs to be aligned with the strategic goals of the organizations. Individuals derive individual work plans from the strategic plan. It is this work plan that forms a basis for the performance contract, which is then implemented, evaluated and the information used to inform decisions on performance improvement.

The incentive system is another important factor that could contribute to employee perceptions on performance contracting. The performance incentive system is considered critical to the success of performance contracting. The elaborate exercise of performance contracting should clearly set out performance targets and provide for an equally elaborate system for evaluation. An incentive system is only effective if it is well understood and accepted by all parties to the contract. Imposition of penalties to non-achievement of targets should be done with great caution since this may breed suspicion and mistrust among workers and executives who feel that these have been brought in to punish them.

Finally, communication of the performance contracting system to the employees is an extremely important factor in the whole process and can determine the success of the system (Franco-Santos and Bourne, 2008). As much as performance targets are key mechanisms for improving motivation and organisational performance, the use of performance targets can be detrimental to organisations as they generate stressful work environments, a low trust culture, data manipulation and financial performance losses. This lack of agreement is a hurdle for managers as it does not provide clear guidance about what to expect from the use of performance contracting tool. Interestingly, management's view of role and performance clarity often differed from the sales force, whilst the sales people simply perceive that they had been given their targets, often with little explanation of how they were set, why they were important or how they were to be achieved.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Research Design

This study was a case study. Case study was the appropriate design since this is an in-depth investigation into unit specific items in the study.

3.2 Data Collection

A semi-structured questionnaire was used to collect data (Appendix 2). It was administered through the drop and pick method.

3.3 Target population

The target population of the study consisted of 78 members of management drawn from Students Welfare Authority (SWA) and all the six colleges of the University of Nairobi, including faculties, schools and institutes (See table 3.1). All the managers were included among the respondents.

Table 3.1: Target populations

Position	Number of Respondents
Principals	6
College bursars	6
Deputy principals	2
Director and Deputy Director SWA	2
Deans/Directors of Faculties/Schools and Institutes	33
Procurement manager and Finance Officer	2
College Registrars (6) and SWA Chief personnel officer (1)	7
Deputy Finance Officers (DFO)	4
Principal Catering Officer and Chief Halls Officer SWA	2
College and Students Welfare Authority Heads of Internal Audit	7
College/ and Students Welfare Authority Procurement Officers	7
Total	78

3.4 Data analysis

Once the questionnaires were collected, they were checked for completeness and then coded. Basic information was summarized using frequencies and percentages and then presented in tables and charts. One-way Analysis of Variance (ANOVA) test was used to determine whether any of the demographic characteristics significantly influenced the management perception of performance contracting. This was determined with the aid of p-values at the 5% level of significance.

Factor analysis was used to identify underlying factors and reduce the number of independent variables. This was done using the method of principle component analysis and VARIMAX rotation with factors extracted only if corresponding eigenvalues are > 1 . Items failing to exhibit simple structure loadings > 0.50 were deleted. The reliability of the factors so identified in representing the constituent variables were determined using Cronbach's alpha. Nunally's (1978) criterion of 0.70 for acceptability of reliability in exploratory research was used to determine whether or not the factors were reliable in measuring or representing the constituent variables.

To examine the relationship between perception on performance contracting and the identified from factor analysis, mean scores for each of the factors were computed. These mean scores were then be subjected to linear regression with perception on performance contracting as the independent variable and the factors as the independent variables. The coefficient of determination (R^2) was used to determine the strength of the relationship between the independent and dependent variables.

CHAPTER 4: DATA ANALYSIS, FINDINGS AND DISCUSSION

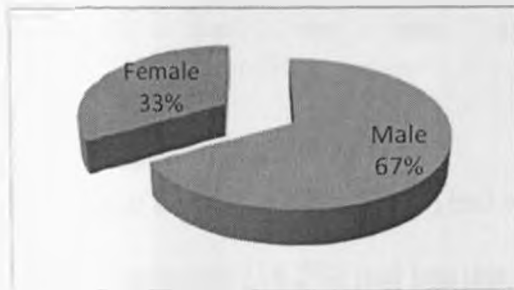
4.1 Response rate

Of the total 78 respondents who received questionnaires, 66 duly filled and returned the questionnaires. This represents 84% response rate which is a very good response rate as it is well above the recommended threshold of 70%.

4.2 Demographic characteristics of the respondents

4.2.1 Gender

Majority (66.7%) of the respondents were male, while only 33.3% were female. These proportions were considered representative of both sexes.



4.2.2 Age

Majority of the respondents (57%) were aged over 41 years while 43% were aged less.

Respondents aged between 31 and 55 years were almost evenly distributed for the five age categories.

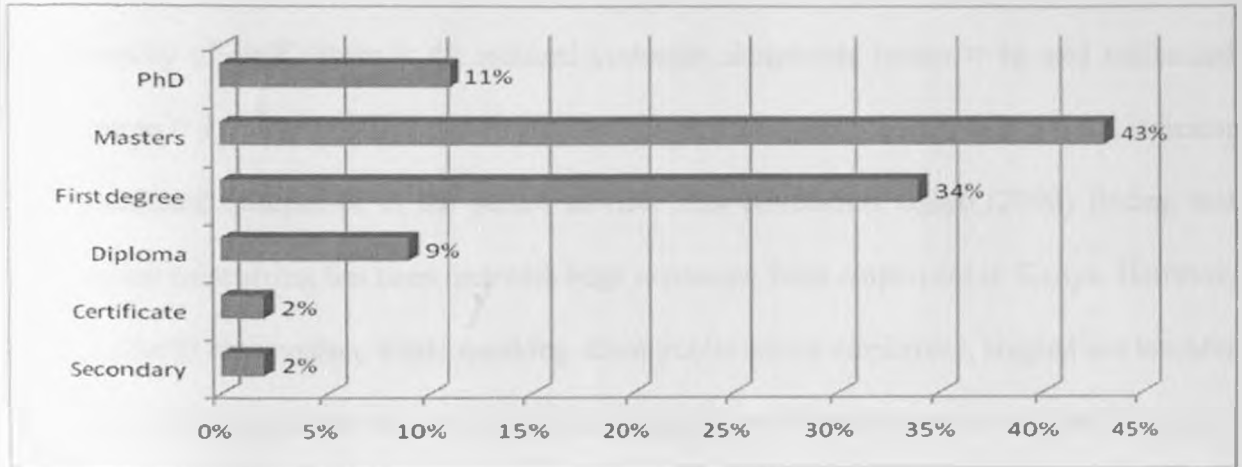
Table 4.1: Age of respondents

	Frequency
20-25	2
26-30	1
31-35	11
36-40	13
41-45	11
46-50	10
51-55	12
56-60	3
Total	63

4.2.3 Education level

A majority of the respondents (43%) had a masters degree while over 88% had at least a first degree. This information is displayed in the chart.

Chart 4.2: Education level



4.2.4 Years of service

Majority of the respondents (31%) had over 15 years of service at the University of Nairobi, while the minority (18.2%) had less than five years.

Table 4.2: Years of service

	Frequency
0-5	12
6-10	20
11-15	13
Over15	21
Total	66

4.3 Perceptions of management towards performance contracting

Table 4.3: Descriptive statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Perceptions on usefulness of performance contracting to the University	65	1.00	5.00	3.8169	.64555
Perceptions on usefulness of performance contracting to the staff	64	1.60	5.00	3.1438	.81062
Perceptions on the process of performance contracting	64	1.00	4.17	2.7427	.58991

Management perceives performance contracting to be highly useful to the university (mean \approx 4). Management identified the following as contributions of performance contracting: It has enabled the University to undertake projects which would have been left undone (mean \approx 4); Increased efficiency and effectiveness in service delivery (mean \approx 4); enhanced tapping into innovation and creativity of staff (mean \approx 4); reduced customer complaints (mean \approx 4); and minimized losses (mean \approx 3). The positive perception towards performance contracting is a good indicator of its continued acceptance in the public service. This contradicts Opiyo (2008) finding that performance contracting has been met with huge resistance from employees in Kenya. However, Opiyo's (2008) observation, while speaking about public sector employees, singled out teachers and judges as having either refused or reluctantly signed performance contracts. The findings of this study, while indicating that there could be increasing acceptance of performance contracting, does not pre-empt the possibility of continued resistance in those two sectors. Besides this, the time lapse between Opiyo's study and the present study could also explain the change in acceptance.

Additionally, management perceives performance contracting as useful to a moderate extent to staff (mean \approx 3) in handling of staff/student queries, enhancement of career growth and development, enhanced job satisfaction, reward and increased job security. This perception is key to continued support of the process as it touches directly on employee welfare. While employee performance was not measured in this case, other general performance indicators such as the recent ranking of the University of Nairobi among top parastatals in performance contracting, suggest that the good perception of usefulness of performance contracting impacts on staff performance. This supports Senge's (1999) finding where he established that employees

having positive perception performed better in their work, whereas those having negative perception were a bit dissatisfied and it affected their performance of work.

The management perceives the appropriateness of performance contracting process as moderate (mean ≈ 3). In this regard, management stated that performance targets are discussed and that metrics used are objective. They do not find performance contract reporting to be tedious and are generally upbeat about the entire process. This finding is well in accordance with the expected norm as emphasized by Trivedi (1987). In his study entitled *Organization Behaviour and the Scientist*, Trivedi (1987) underlined the need underlined the essence of performance contracts as freely negotiated targets and systematic evaluation against the pre-set targets at the expiry of performance period. Owing to this conformity, the University of Nairobi is on the right path towards perfecting the performance contracting process. The University, though, should still examine ways of improving management perception of the process.

4.4 Factors affecting perception of performance contracting:

Table 4.4: Descriptive statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Employer support to the accomplishment of the performance contracts	66	1.40	5.00	3.1697	.84943
The performance contracting process	66	1.00	4.50	2.8194	.68244
Interpersonal relations	66	1.75	5.00	3.2891	.74194
Valid N (listwise)	64				

Employer support

The management feels that the employer provides support for the accomplishment of performance contracts to a moderate extent (mean ≈ 3). Key aspects of employer support identified included: provision of an enabling environment, effective communication, government

commitment, monitoring & evaluation and sufficient funding. The system of ranking public enterprises, as an output of monitoring and evaluation, on the basis of their performance with regard to their contract has been found to be very effective. Drucker (1995) found a precise ranking to be a great motivating device. The experience of Korea and Pakistan shows that this is not merely a theoretical possibility but a viable and feasible policy option. Further, these results support Kotler (2000) findings that government commitment to meeting its end of the performance contract enhances the success of performance contracting with public enterprises.

Performance contracting process

Management deems the factors of the performance contracting process to be average (mean ≈ 3). Apart from the general feeling that some targets set by the government given budgetary constraints are unattainable (Mean ≈ 2), all other aspects of the performance contracting process were rated average (Mean ≈ 3). These include: Employee involvement in setting targets, ease of understanding of performance metrics and reward and recognition. The performance contracting process encompasses all the stages from target setting through to evaluation of achievement of targets at the end of the time frame. Proper handling of this process is thus of prime importance. The findings suggest that sometimes government expectations in target setting are beyond budgetary constraints. This can be a de-motivating factor as Lienert (2003) observes. Employee involvement in setting targets ensures ownership and greater commitment. RBM Guide (2005) emphasises the need for employee involvement in target setting. Against this backdrop, the University of Nairobi should enhance involvement of employees to assure success of performance contracting.

Interpersonal relations

They also find interpersonal relations to be fairly good (mean ≈ 3). Relationship with supervisor was rated good (mean ≈ 4); all the other aspects of interpersonal relations were rated average (mean ≈ 3). These included: Openness and teamwork, use of performance contract as a point of reference and ease of managing change. Herzberg (1959) & Miller (1980) found significant correlations between interpersonal relations and employee perception of job satisfaction. This underscores the importance of advocacy of good interpersonal relations as a means of enhancing management perception of performance contracting.

CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of findings

This study sought to meet the following two objectives: Firstly, it sought to determine the perception of management in University of Nairobi towards performance contracting and secondly, to determine the factors that influence perception of management in University of Nairobi towards performance contracting.

Management perceives performance contracting to be highly useful to the university, in general and specifically associates performance contracting with greater project initiatives, increased efficiency, tapping creativity and innovation and reduction of customer complaints and that it has helped the university to reduce losses. In addition, management perceives performance contracting as useful to staff in handling of staff/student queries, enhancement of career growth and development, enhanced job satisfaction, reward and job security. Management agreed that performance targets are discussed with staff and that performance metrics used are objective.

The following factors were identified as affecting management perception towards performance contracting: Employer support for the accomplishment of performance contracts and interpersonal relations.

Strong significant correlations were found between: perceptions on usefulness of performance contracting to the university and employer support; perceptions on usefulness of performance contracting to the university and interpersonal relations. This means that the university should give greater support and encourage better interpersonal relations in order to improve management's perception of performance contracting.

Management identified the following as contributions of performance contracting:

Perception on the process of performance contracting had the greatest and the only significant relation with the performance contracting process factor.

Correlation analysis revealed that personal traits did not have a significant impact on the perception of management towards performance contracting. This supports an earlier finding by Senge (1999) who reported a positive but non-significant correlation between employee perception and personal traits.

5.2 Recommendations

Performance contracting being a key reform agent, public entities (such as the University of Nairobi) should prioritize initiatives that promote employee perception towards it. This can be done by offering more employer support and promoting better interpersonal relations that will enhance team spirit and joint accountability.

Further, public entities should undertake more monitoring and evaluation on performance contracting and establish systems for reward and recognition for achievers. This will further serve to improve employee perception towards performance contracting.

5.3 Suggestions for further research

It is recommended for further study that a research be carried out to determine the relationship between perception towards performance contracting and employee performance and examine the impact of personal traits on this relationship. Future research on the same topic should also incorporate the opinion of managers at the supervisory level and lower cadre employees. This is because it was observed that there is high involvement of team members and thus this group could also provide valuable information which could serve to bring out the true picture of employee perception.

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**APPENDIX 1:
UNIVERSITY OF NAIROBI COLLEGES & FACULTIES/SCHOOLS/INSTITUTES**

TABLE 1: COLLEGES

1.	College Of Agriculture And Veterinary Sciences
2.	College Of Architecture And Engineering
3.	College Of Biological And Physical Sciences
4.	College Of Education And External Studies
5.	College Of Health Sciences
6.	College Of Humanities And Social Sciences

TABLE 2: FACULTIES/INSTITUTES/SCHOOLS

1.	Board Of Post Graduate Studies
2.	Centre For Hiv Prevention And Research (uon-chivpr)
3.	Faculty Of Arts
4.	Institute Of Anthropology, Gender & African Studies
5.	Institute Of Tropical & Infectious Diseases(unitid)
6.	School Of Law
7.	School Of Business
8.	School Of Dental Sciences
9.	School Of Engineering
10.	School Of Nursing Sciences
11.	School Of The Arts And Design
12.	Center For International Programmes & Links
13.	Centre For Open And Distance Learning
14.	Faculty Of Veterinary Medicine
15.	Institute Of Diplomacy And International Studies
16.	Kenya Science Campus
17.	School Of Medicine
18.	School Of Computing And Informatics
19.	School Of Economics
20.	School Of Journalism
21.	School Of Pharmacy
22.	School Of The Built Environment
23.	Centre For Biotechnology & Bioinformatics
24.	Faculty Of Agriculture
25.	Institute For Development Studies
26.	Institute Of Nuclear Science & Technology
27.	Population Studies And Research Institute
28.	School Of Biological Sciences
29.	School Of Continuing And Distance Education
30.	School Of Education
31.	School Of Mathematics
32.	School Of Physical Sciences
33.	The Wangari Maathai Institute For Peace And Environmental Studies

Source: <http://www.uonbi.ac.ke/academics/>

APPENDIX 2: QUESTIONNAIRE

My name is William Kurui Kitum. I am an MBA student at the University of Nairobi, School of Business. I am researching on Management perception of performance contracting at the University of Nairobi. I would like to kindly request you to fill for me this questionnaire. The questionnaire has three sections **I, II and III**. Your responses will be made confidential. I look forward to your cooperation.

SECTION I: DEMOGRAPHIC CHARACTERISTICS (TICK [✓] AS APPLICABLE)

1. Gender

Male		Female	
------	--	--------	--

2. Age (years)

20-25	26-30	31-35	36-40	41-45	46-50	51-55	56-60	61-65	Above 65

3. Marital status

Single		Married		Widowed		Divorced	
--------	--	---------	--	---------	--	----------	--

4. Level of education

Secondary	Certificate	Diploma	First degree	Master's	PhD

5. Occupation/ professional qualifications.....

6. College and School/Institute/Department.....

7. How many years have you worked in the University of Nairobi?

Years of Service	0-5	6-10	11-15	Over 15
(✓)				

8. What is your current grade in the institution? (tick [✓] as applicable)

Position	Tick (✓)
Professor	
Associate Professor	
Senior Lecturer	
Lecturer	
E to F	
Assistant Lecturer	
Tutorial Fellow	
A to D	

9. Are you currently employed on contract or a permanent basis? (tick [✓] as appropriate)

Contract		Permanent	
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SECTION II: MANAGEMENT PERCEPTION OF PERFORMANCE CONTRACTING

Please use the following Likert scale to answer the remaining part of the questionnaire. Where required, tick [✓] the appropriate rating.

1 = strongly disagree, 2 = Disagree, 3 = Neither Agree nor Disagree, 4 = Agree, 5 = strongly agree

10. Perceptions on usefulness of performance contracting to the University (tick [✓] as appropriate)

	1	2	3	4	5
a) Since performance contracting was introduced customer complaints have reduced.					
b) With the advent of performance contracting, reported losses in terms of money, books & assets, number of students) in the institution have drastically reduced.					
c) Performance contracting has increased efficiency and effectiveness in service delivery					
d) Performance contracting has enabled the University to undertake projects which would have been left undone					
e) Performance contracting has enabled the university to tap into innovation and creativity of staff.					

11. Perceptions on usefulness of performance contracting to the staff (tick [✓] as applicable)

	1	2	3	4	5
a) Performance contracting has enhanced career growth and development of staff.					
b) Since the introduction of performance contracting, students and staff queries are handled faster.					
c) Since the introduction of performance contracting, productive and less productive staff are easily identified and rewarded or punished more than before.					
d) Performance contracting has led to greater job satisfaction.					
e) With performance contracting, staffs are more secure and confident in their jobs.					

12. Perceptions on the process of performance contracting (tick [✓] as applicable)

	1	2	3	4	5
a) Employees at the university are sceptical at performance contracting.					
b) I feel that targets are imposed on staff.					
c) A performance contract reporting is very tedious.					
d) The entire performance contracting process is a source of stress to employees.					
e) Employees take changes introduced into the organization by performance contracting seriously.					
f) Performance metrics are subjective.					

SECTION III: FACTORS INFLUENCING MANAGEMENT PERCEPTION OF PERFORMANCE CONTRACTING

Please use the following scale to answer this section. Where required, circle the appropriate rating.

1 = strongly disagree, 2 = Disagree, 3 = Neither Agree nor Disagree, 4 = Agree, 5 = strongly agree

13. Employer support to the accomplishment of the performance contracts (tick [✓] as applicable)

	1	2	3	4
a) The university provides an enabling environment to accomplish targets.				
b) There is sufficient funding for projects undertaken under the performance contracts.				
c) Top management continuously monitors and evaluates the projects and rewards good performers.				
d) The channels of communication are open, accessible and effective for purposes of inquiry and reporting.				
e) The government is committed to fulfilling its side of the performance contracts				

14. The performance contracting process (tick [✓] as applicable)

	1	2	3	4
a) The employees are involved extensively and constructively in setting targets.				
b) Rewards and penalties for the staff signing the contract are clearly spelt out in the contract.				
c) The metrics to be used to gauge performance are easily understood and not too subjective.				
d) Some targets set the government are unattainable given budgetary constraints.				

15. Interpersonal relations (tick [✓] as applicable)

	1	2	3	4
a) Managing change in my department is not challenging				
b) The relationship with my supervisor is good and amicable.				
c) There is an atmosphere of openness and teamwork among colleagues and the supervisors.				
d) Colleagues and supervisors often use the performance contracts as a point of reference when handling issues.				

16. What are the other factors that influence management perception of performance contracting in the University of Nairobi? (Please list in order of significance)

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Thank you.