Critical Perspectives on Accounting xxx (2015) xxx–xxx

Contents lists available at ScienceDirect

Critical Perspectives on Accounting

journal homepage: www.elsevier.com/locate/cpa

Performance contracting and social capital (re)formation: A case study of Nairobi City Council in Kenya

Robert Ochoki Nyamori[a,*], Victor Oyaro Gekara[b]

[a] Faculty of Business, Economics and Law, Department of Accounting, La Trobe University, Bundoora 3086, Melbourne, VA, Australia
[b] Department of Business IT and Logistics, RMIT University, GPO Box 2476, Melbourne, VA 3001, Australia

ARTICLE INFO

Article history:
Received 18 March 2014
Received in revised form 11 June 2015
Accepted 27 June 2015
Available online xxx

Keywords:
Performance contracting
Performance management systems
Kenya
Local government
Public sector reform
Social capital
New Public Management

ABSTRACT

This paper reports on a qualitative case study of Nairobi City Council (NCC) to, firstly, illuminate how social capital is constructed in discourses surrounding the introduction of performance contracting into the Kenyan public sector and secondly, examine how the introduction of performance contracting into the Kenyan public sector may have affected social capital formation within this authority. The data were collected via an extensive review of official government documents as well as qualitative interviews over a six-month period. The analysis reveals that there is perceived notable change in the social structure and working norms and values among employees following the implementation of performance contracting. This perceived change is however being frustrated by inadequate resources and entrenched attitudes and networks of patronage and corruption, especially at the top levels of government. The study illuminates how regulatory discourse, structural changes and incentive and coercive mechanisms combine in an effort to change social capital at the micro level of government agencies but how these efforts are thwarted by strongly embedded institutions. We conclude that performance contracts, on their own, are unlikely to transform the Kenyan public sector in the manner envisaged without political will and significant change in the wider socio-political environment.

1. Introduction

Many developing countries, including Kenya, Morocco, Korea, Senegal, India, Ghana (Ghosh, 1997), China (Shirley & Xu, 2001) and Bolivia (Mallon, 1994) have embraced performance-based management, budgeting, and reporting systems – a prominent one of which is performance contracting – ostensibly to become more efficient and effective. Though there are many variants of performance contracting systems, by and large, they involve setting clear objectives and targets for government entities and employees to which they contractually commit and then holding them to account for achievement against these objectives and targets. These systems which are symptomatic of New Public Management (Hood, 1995) mark a shift from inputs and process forms of control to outputs and results. These results-based management systems are informed by the agency theory view that in the public sector, there are multiple principals and agents with conflicting objectives and that bureaucratic rules and regulations tend to be diverse and ambiguous causing poor performance (Tangri, 1999).

Performance contracting in Kenya was ostensibly introduced in the context of political transformations in Kenya in the early 2000s, when the 24-year-old regime of President Daniel Arap Moi, widely considered corrupt, inept and oppressive,

* Corresponding author. Fax +61 39479 2356.
E-mail addresses: r.nyamori@latrobe.edu.au (R.O. Nyamori), Victor.gekara@rmit.edu.au (V.O. Gekara).

http://dx.doi.org/10.1016/j.cpa.2015.06.004
1045-2354/$ – see front matter

came to an end. The stated purpose was to improve public sector performance, resuscitate the economy and create wealth. It was also presented as part of a far reaching programme to transform public sector norms and values particularly and governance of the country generally. In the process it was intended to eradicate corruption, improve service delivery and make government more transparent and accountable (Government of Kenya, 2003).

The newly elected government in 2002 thus directed all government ministries, departments and agencies (MDAs) to develop strategic plans and service charters, and sign performance contracts. The contracts specified the areas (or dimensions) where performance was to be assessed, the targets to be achieved on each dimension and by each of these government entities, and their responsibilities in achieving them. The contracts, which also specified the responsibility of the government, were to be cascaded down to lower levels of each MDA and further down to each employee, tying each to the MDA's performance contract (Government of Kenya, 2003). These targets included MDA specific targets and nationally assigned targets[1] and were to be used to assess the performance of every government entity and employee at the end of every year. The adoption of performance contracts in the Kenyan public sector was expected to herald a revolution in ethics and working practices. The then Minister of State for Provincial Administration and National Security stated at a workshop on performance contracting that the government's vision for the future:

> . . . (was) to have a service that is more focused, efficient and increasingly responsive to the needs of those it serves, while upholding the highest standards of integrity. We want to have a public service culture that recognizes and rewards good performance and equally sanctions poor performance" (Government of Kenya, 2004b, p. 10).

In spite of the massive expectations which have been placed on performance contracting in the public sector, most of the research on performance contracting in developing countries has been conducted by the World Bank, which is a key exponent of performance contracting (e.g. Trivedi, 2004a; Shirley & Xu, 2001). This research has mostly utilised broad-brush country surveys without detailed insights into the experiences of specific countries and their public agencies (except Mallon, 1994; Mallon, 1994)[2]. Many of the studies, including those conducted on Kenya are mostly descriptive (e.g. Obon'go, 2009; Marwa & Zairi, 2009), or prescriptions of how performance contracting should be implemented (e.g. Trivedi, 2004b). While both Mallon (1994) and Shirley (1996) have attributed important changes in the conduct of State and State Owned Enterprises (SOE) managers to the success of performance contracting, we are not aware of any study, which has looked at this issue in great depth within a specific context.

The issue of ethics, norms and attitudes that the Minister alludes to above are at the heart of social capital theorising (Leana & Van Puren, 1999), which is increasingly being employed as a framework for making sense of developments in the not-for profit sector. Social capital has been defined in many ways but, in this discussion, we view it as the resources availed to, and benefits derived from networks of social relations (Foley & Edwards, 1999; Nahapiet & Ghoshal, 1998). These networks are characterised by certain norms and values which motivate their members to share their resources. There are concerns that widespread introduction of NPM (Hood, 1995) into the public sector could perversely affect public sector social capital (e.g. Gregory, 1999). Positively, it could improve work ethics, enhance collaboration and improve performance. Negatively, it could erode state capacity to collaborate with other state agencies and groups (Wallis & Dollery, 2001); being fundamentally market-based instruments they could promote individualism at the expense of the collective and thus undermine social coherence of the public sector as well as its core ethos (e.g. Gregory, 1999); following the adage that what gets measured gets managed (Trivedi, 1994), it could focus attention on only what is measurable. Writing on the New Zealand experience, Schick (1996) warns that the use of contracting in the public sector might not be appropriate especially in countries with weak institutional and administrative capacity, for example Kenya (Cohen, 1993) and Ghana (Uddin & Tsamenyi, 2005). The focus on social capital is important because it affects government capacity to discharge its responsibilities (Boix & Posner, 1998; Woolcock, 1998) which include building local democracy (Nyamori, Lawrence, & Perera, 2012).

The apprehension that NPM might adversely affect public sector social capital is not misplaced. Experiences in other countries that have employed contracting approaches suggest that social capital is likely to be adversely affected with the erosion of ethics, professionalism and collaboration (Wallis & Dollery, 2001). There is evidence that NPM inspired reforms whereby NGOs are contracted to provide public goods and services can change an organisation's values and norms (e.g. Butcher & Freyens, 2011; Considine, 2003; Rogers, 2007; Chenhall, Hall & Smith, 2010; Awio, Northcott, & Lawrence, 2010). Notably however, little research has been conducted into how NPM may have affected the social capital of public sector organisations, with the exception of Gregory (1999),Wallis and Dollery (2001), and Nyamori et al. (2012). Furthermore, little, if any studies are located outside the sphere of developed economies, leaving the effect of NPM on social capital in developing countries' public sectors largely unexplored. The studies also fail to appropriately theorise the mechanisms through which hierarchy – in this case government action, such as the introduction of performance contracting – might affect social capital (cf. Adler & Kwon, 2002).

This paper seeks to achieve two aims. Firstly, it seeks to illuminate how social capital is constructed in discourses surrounding the introduction of performance contracting into the Kenyan public sector. Secondly, it examines how the

[1] The national targets were drawn from Vision 2030, the Millenium Development Goals and the Economic Recovery Strategy for Wealth and Employment Creation (ERSWC) 2003–2007.

[2] Mallon (1994) analysed the performance of SOEs in Bolivia following the implementation of performance contracting, but his analysis is a broad brush analysis of changes in performance in the five Bolivian SOEs and does not delve deep enough into the changes within the five Bolivian enterprises.