

Effectiveness of Performance Contracting in Public Institutions in Nakuru County – A Case Study of the Provincial General Hospital

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Abstract: *International best practice shows that governments and global agencies are currently implementing performance contracting to enhance performance of civil servants and entrench good governance and accountability. This research set to establish the effectiveness of performance contracting (P.C) in the government institutions this far. The study used a descriptive design. It used both quantitative and qualitative approaches in the research. Questionnaires were the tools used. This was a case study of the Provincial General Hospital in Nakuru County. Purposeful sampling and random sampling procedures were used. The target population included all the staff working at the Provincial General Hospital, the Management Staff, Middle level and even orderlies. Particular department were sampled out purposefully, and then from each sampled department, ten subjects were sampled randomly. In order to test the reliability of the instruments a pilot study was done in two other departments which were not included in the sample. The filled up questionnaires were subjected to Cronbach test for reliability score of above 0.7 co-efficient. Validity of the instrument was ensured through the assistance of the university supervisors. Qualitative data was obtained from the open ended items which were analyzed methodically. The responses formed the themes for analysis. Quantitative data was analyzed for descriptive statistics (percentages and frequencies). Statistical Package for Social Sciences (SPSS) computer software version 21.0 was used for analysis. Pearson Product Moment Correlation(r) value was computed to determine the relationship between independent variables and the dependent variable. The study established that indeed performance contract was critical for service delivery. The effectiveness of the implementation of PCs in public institutions depended on the knowledge of the employees and managers on the content of the performance contract and extent of the work done in relation to the performance contract. It was recommended that the government and the leadership of the various government institutions embark on capacity build to enlighten the employees on the genesis and implication of performance contracting. The well performing employees should be rewarded and the uncooperative to face strict penalties. Further research in other government institution was also advised to shade more light in the study problem.*

Keywords: Performance contracting, effectiveness, service delivery, government, Provision general Hospital

1. Introduction

Performance Contracting (P.C) is a branch of management science referred to as management control system. A Performance Contract is a statement in writing about expectations of the manager's and the employee's and commitments for the coming period. There are two parts to the performance contract: statement of key responsibilities and standards of performance for each of those responsibilities [1]

Governments are faced with the challenge of improving service delivery while using fewer resources to deliver effective and efficient services demanded by the citizens[2] In Asia, the performance contract concept has been used in Bangladesh, China, India, Korea, Pakistan and Sri Lanka, Latin America, Argentina, Brazil, Bolivia, Chile, Colombia, Mexico, Uruguay and Venezuela. Others include Malaysia, United Kingdom, U.S.A, and Canada.

In Belgium, performance contracting in the public sector dates back to the breaking of the traditional monolithic government in the 1830s and stipulated the compulsory public utility service being provided by the agency and the government's conditions [3]. Although the paradigm of performance contracting in Belgium dates back in the 1800s, its science originated from France in the 1960s and subsequently embraced by Pakistan and Korea and India.

In United Kingdom (UK), performance contracting in public sector was introduced in 1998 as Public Service Agreement (PSA) system and outlined a set of performance targets which all government agencies were to report on. In Finland, major public service reforms were introduced during 1987-1997 according to study on Public Sector Performance Contracting and the aim was to make public agencies more responsible and accountable[4]. In Denmark performance contract played a major role in improving efficiency and increasing policy control and in United State of America (USA) according to Government Performance and Results Act of 1993, performance contract aimed at making federal departments more productive and therefore boosts citizens' confidence in their government.

Performance contract system originated in France in the late 1960's before being adopted in many developed countries like Britain, USA and Canada. It was later introduced in developing countries including Nigeria, Tanzania, Gambia, Ghana and Kenya [5]. The concept of Performance contract in Kenya can be traced to 1990 when government, through Cabinet Memorandum No. CAB (90) 35 of May 1990 approved the introduction of performance contracts, in the management of public agencies. In 2003 the government made commitment to introduce Performance contracts as a management tool to ensure accountability for results and management of public resources [6]. The government thorough Cabinet Memorandum No. CAB (03) 115 of 15 Jan 2004 reiterated that all Permanent Secretaries/Accounting

Officers and Chief Executive Officer of State Corporations will be placed on Performance Contracts by June 2004.

In African countries, experience of poor performance public agencies called for new comprehensive public sector reforms strategy to address these problems. Countries such as Ghana, Nigeria, Gambia and Kenya in 2005 started managing public service through performance contracting [5]. East African Community (EAC) performance Contract 2008/2009 stipulated expectations of member states (Kenya, Uganda, and Tanzania) commitment for common achievement including implementation of Strategic Plan (2007-2012) which was to ensure that appropriate work plans are developed on the basis comprehensive performance targets.

In Kenya, Performance contracting concept can be traced back to 1990 through Cabinet Memorandum No. CAB (90) 35 when performance contracting paradigm was conceived and designed with the aim of having a real impact in changing the way things were being done, creating new behavior patterns and adoption of positive attitude work ethics in the entire public service delivery[5]. The system was expected to return faith in government services to the citizens and other international stakeholders. The paradigm was later outlined in the Economic Recovery Strategy for Wealth and Employment Creation (ERS) 2003-2007.

1.1 Statement of the Problem

Effectiveness of performance in the Kenya civil service has been noted to be a big challenge and below the expectations and led to strained national budget without equivalent results [7]. In response, the government has been undertaking a number of reforms to address the situation in the last two decades. Such reforms include; Freezing of Employment and Structural Adjustment Program (SAP) in the early 1990s, Voluntary Early Retirement (VER), Retrenchment Program in the mid-1990s early 2000s and introduction of Integrated Payroll and Personnel Database (IPPD), Salary Review and Strategies for uprooting corruption from the public service among others. In 2005, the government made a major stride by introducing performance contracting paradigm in the management of public service and a positive paradigm shift in performance has been recorded[6][5]

Implementation of the performance contracting in the public service aimed at revolutionizing service delivery in the public service [5]. Scholars reckoned that a deeper study was required to unearth and reveal understanding on the role of performance contracting on variables such as productivity, employees' motivation, organizational culture and organization effectiveness. All these factors combined form the effectiveness of performance in the civil service. In view of the foregoing, this study therefore sought to investigate the effects of performance contracting on effectiveness of performance in the Civil Service at the state Nakuru Provincial General Hospital (PGH).

1.2 Objectives of the Study

1)To establish to what extent has Nakuru Provincial General Hospital been able to utilize performance contracting in ensuring service delivery.

2)To establish what factors affect the intended results of performance contracting on service delivery at NPGH

1.3 Research Questions

1)To what extent has Nakuru Provincial General Hospital been able to utilize performance contracting in ensuring service delivery?
2)What factors affect the intended results of performance contracting on service delivery at NPGH?

2. Literature Review

Government of Kenya in 2010 through a Panel of Experts set up to review Performance Contracting since implementation in 2004 studied the PCs and shed light on areas such as: the framework and design of the performance contracting system applied since 2004; the performance contracting process; the performance contracting evaluation system and process; the critical learning points from the performance evaluation results reported over the past three financial years, and citizen participation, expectations and perceptions. The report was too broad and failed to address specific areas such as quantified effects of performance contracting on performance. "Public Sector Reforms and Performance Contracting" study observed that in the 1990s, Kenya's Public Service was among the countries which had suffered "damaged image" both locally and internationally. The study revealed that performance contracting has instilled discipline to the public institutions by ensuring adherence to work-plans, strategic plans, sector plans and Vision 2030 has its foundation laid on performance contracting. The study noted that the paradigm enabled recognition of performers from non-performers thus leading to a competitive public service[8]. A Review on Performance Contracting in Kenya" based on results for the year 2005-2006 asserted that introduction of performance contracts by the government in 2004 has improved performance, service delivery and governance.

In a study "Kenya Experience with Performance Contracting" reckon that performance contracting has revolutionized service delivery in the public service[5]. The study assumed a descriptive and qualitative design and results were based on 280 senior public servants who were attending a workshop at Kenya Institute of Administration and were drawn from various ministries across the country. This implies that the study was spread so thin to enable sound conclusion. The study noted that performance contracting ensures that employees are guided and facilitated by work-plans and are made responsible for their results. The system enables measuring the extent to which the set targets has been achieved and enables coordination of the individual, department, institution and ministries to derive their plans from the country's envisioned development blue print Vision 2030. Performance contracting forms a very strong base for employees' employment terms of service since they have to justify their stay in the payroll through performance and reckon that "every employee has to justify why they should be retained in the payroll through performance" [9]. The study noted that performance contracting has demystified government and governance

processes thus ensuring inclusion of grass roots level communities.

Decision making in local authorities settings is a political process. In such a situation, decisions are typically not purely rational but rather incremental, adaptive and predetermined by interactions of political influence and sudden changes in the environment [10]. He further states that strategic planning has to be accomplished in a pluralistic environment where power is distributed among many and varied interest groups. However, there are very few empirical and theoretical studies on factors affecting implementation of performance contract initiatives. This study aims to contribute to filling this gap using both theoretical and empirical approaches.

Opiyo, researched on financial sources of finance in local authorities and observed that many of them were suffering financially and needed assistance [11]. This resulted from unclear and conflicting objectives, poor management and lack of accountability. Though this responded to addressing financial status in local enterprises, it did show over reliance on exchequer. However, he did not bring out how public enterprises can control and avoid over reliance an exchequer. This study will explore on how implementation of performance contract improve on service delivery in Municipal council of Mara. Public servants are working so hard to be sure things are being done right that they hardly have time to decide if they are doing the right things[12]. Though he highlighted a need to have a hands-on approach to issues by council officers, he did not identify a clear formula on how to ensure councils operations are attained. By addressing factors leading to implementation of effective working formula geared to improving delivery of services, performance contracting is very important and should be researched on all aspects as an on-going process.

Performance of public enterprises and quest for meeting the citizen needs should progressively be measured to determine attainment of these goals [13]. There must be appropriate tools for monitoring the progress of targets being proposed. This did not come out in his research study and therefore calls for further investigation on factors affecting implementation of positive performance of public enterprises to meet citizens' needs.

3. Theoretical Framework

3.1 Goal Setting Theory

The goal setting theory was formulated inductively on basis of empirical research and is based on Ryan's (1970) premise that conscious goals affect action. The prime axiom of goal setting theory is that specific difficult goals lead to higher performance than when people simply strive to do their best [14]. However, the challenging goals do not necessarily lead to such desirable personal organizational outcomes but results from goal setting depend critically on issues pertaining to goal commitment, task complexity goal framing, team goals and feedback.

Goals affect performance through four mechanisms; they serve as a directive function in that they direct attention and

efforts towards goal relevant activities and away from goal irrelevant activities, they have an energizing function in that high goals lead to greater efforts than low goals, they affect persistence in performance and lastly goals affect action indirectly by leading to arousal, discovery and/or use of task relevant knowledge and strategies [15].

Goal performance relationship is strongest when people are committed to their goals. Factors facilitating goal commitment include the factors that make goal attainment important to people and their belief that they can attain the goal (self - efficacy) Goals are outcome to aim for and a standard for judging satisfaction. The goals thus serve as inflection point or reference standard for satisfaction versus dissatisfaction [16]. Accordingly, for any given trial, exceeding the goal provides increasing satisfaction as positive discrepancy grows and not reaching the goal creates increasing dissatisfaction as negative discrepancy grows.

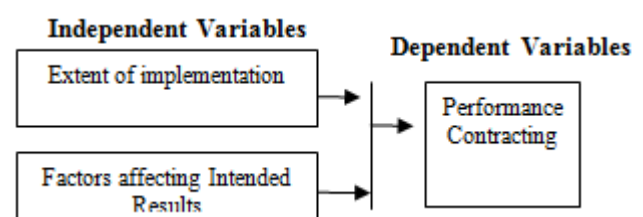
3.2 Performance Management Systems

According to systems theory approach, an organization is comprised of many parts whereby the organization is a whole and its various departments are subsystems within it[17].The systems theory is characterized by five principles, that is personal mastery, shared vision, mental models, team learning and employee identification. In respect to performance management and system thinking an organization has to evaluate performance, job responsibilities, and functions from a systems point of view.

3.3 Organization Theory

Organizational theory according to Jeffery Pfeffer in his book "*New directions for organizational theory*", provides an interdisciplinary focus on the effects of social organizations on behaviour and attitudes of individuals within them, effect of individual characteristics and action on organization, the performance, success, and survival of organizations, the mutual effect of environments including resource and task, political and cultural environments on organizations and vice versa and finally concerns with the epistemology and methodology that undergird research in each of this topics. The organizational theory is based on the premise that business organizations are formed to deliver goods or services to consumers in such a manner that they can realize profit at the conclusion of the transactions. In this regard performance contracting is adopted with an intention of setting employees to the realization of an institution's goals, mission and vision.

3.4 Conceptual Framework



There is a conceptual relationship between the dependent and independent variables of the study. The dependent variable is

the effectiveness of performance contracting on service

4. Methodology

Explanatory research design used to investigate the effectiveness of the P.C in Nakuru Provincial General Hospital (P.G.H). An explanatory design explains the relationship about the population or phenomenon being studied. It was used to obtain information concerning the current status of the phenomenon (P.C) with respect to variables or conditions in a situation.

This study targeted the whole staff of the Rift Valley Province General Hospital. It included the administration, the out-patient department, the records, general wards, dental, x-ray, children, male and female wards. It also included the procurement and supplies sections.

Purposeful sampling was used to select 8 departments. This was because it was not possible in the given time to cover all the departments and some are very similar. A sample size of 80 employees was derived from a sampling frame of 530 staff members. This was adequate for a significant statistical analysis. Random sampling of ten people was then done from each of the 8 departments. Questionnaire was the main research instrument.

Piloting was used to ensure reliability of the instruments. The same tests (questions) were used in all the study to maintain consistency and enhance reliability. In order to test the reliability of the instruments a pilot study was done in two other departments which were not included in the sample. The results obtained from the pilot study assisted the researcher in revising the questionnaires to make sure that it covers the objectives of the study. The filled questionnaires were subjected to Cronbach test for reliability score of above 0.7 co-efficient [18]. Validity of the instruments was ensured through the assistance of expert opinion of the university supervisors.

The data for the study collected yielded both qualitative and quantitative data. The collected data was categorized, coded and analyzed. Responses in the likert scale were assigned numerical values to make quantitative analysis possible. Qualitative data obtained from the open ended items were analyzed methodically. The responses formed the themes for analysis. Quantitative data was analyzed for descriptive statistics (percentages and frequencies). Statistical Package for Social Sciences (SPSS) computer software version 21.0 was used for analysis. Pearson Product Moment Correlation(r) value was computed to determine the relationship between Effective performance contracting (independent variables) and Service delivery in public institutions (dependent variable).

5. Findings

5.1 Descriptive Analysis

5.1.1 Extent of Implementation of Performance Contract

Table 1: Extent of Implementation of Performance Contract

<i>Statement</i>	<i>SA</i>	<i>A</i>	<i>D</i>	<i>SD</i>	<i>NS</i>
The PCs stipulate all the work we actually do	21%	16.6%	25.4%	27%	10%
The extent of service delivery matches with the PCs	30%	23.4%	19%	10.6%	16 %
The content of the PCs are not achievable	17.8%	23.9%	28%	30%	17.8%
The administration has allowed us not to bother so much about the PCs	7%	28.5%	62%	1.6%	7%
Some staff members have not signed any PCs	18%	19%	59.8%	2.1%	2.1%

As indicated in Table 1, majority (52.4%) of the respondents either strongly disagreed or disagreed to the statement that the PCs stipulated all the work they actually did. Another 37.6 % of the respondents either strongly agreed or agreed while 10% were not sure of this fact. A greater majority (59.4 %) of the participants also agreed that the extent of service delivery matches with the PCs parents. However, another 19% and 10.6% disagreed and strongly disagreed respectively while 10 % were not sure.

The next item investigated whether the content of the PCs are not achievable. The majority (58%) of the respondents disagreed to this statement while 41.7% either agreed or strongly agreed. The remaining 17.8% were not sure. 62% of the participants disagreed that the administration has allowed them not to bother about the PCs. On whether some staff members had not signed any PCs. 59.8% of the participant's participants disagreed, 19% agreed, 18% strongly agreed while 2.1% were not sure.

The findings above correspond to earlier findings [7] that the lack of universal acceptability was one of the reasons various institutions began participation in the system at different times with the bulk of the institutions however registering their first participation in 2005/06. From extensive discussions with key stakeholders it has been found that since 2007 (about two years after PC came into effect), some institutions have developed methods where they deliberately set low targets for themselves which are at times also not in the very core areas of their business. Such institutions therefore, are able to score highly without 'stretching' so high (GoK, 2010). This has been one of the biggest challenges to the performance contracting system as currently being implemented. However, it should be noted that, when implemented properly, the PC system should in the long run be self-correcting and therefore weed out such behaviour. It would be prudent for the various institutions to be accessed on the basis how well they are attaining their core business areas.

5.1.2 Factors Affecting the Intended Results

Table 2: Factors that Affect the Intended Results

Statement	SA	A	D	SD	NS
The implementation of PCs is monitored by Government	9%	25%	33%	51%	2%
The administration has allowed us not to bother so much about the PCs	4%	22%	30%	38%	6%
There is a by-law (Legislation) for PCs at the NPGH	3%	5%	23%	53%	16%
The implementation of the PCs is very expensive for the Hospital	10%	15%	40%	24%	11%
Patients appreciate the results of the PCs in service delivery	22%	34%	30%	6%	8%

As indicated in Table 2 a majority 51% and 33% of the respondents strongly disagreed and disagreed respectively with the statement that the implementation of PCs is monitored by government. Another 36% of the respondents either just agreed or strongly agreed with this statement while 2% did not know. The second item inquired whether the administration had allowed the staff work without much reference to the performance contract at 38% strongly disagreed, 30% disagreed, 22% agreed while 4% strongly agreed. The remaining 6% of the respondents did not know. On whether there was a by-law (Legislation) for PCs at the NPGH a significantly greater majority that is 53% strongly disagreed with this fact and seconded by another 23% who disagreed. Only 8% of the remaining respondents agreed that there was such a by-law in the hospital while another 16% did not know.

The research sought to establish whether the implementation of the PCs was very expensive for the Hospital for which 40% of the respondents disagreed, 24% strongly disagreed, 15% agreed while 10% strongly agreed. The objective also inquired whether the patients appreciated the results of the PCs in service delivery A majority (56%) of the respondents either agreed or strongly agreed while 36% disagreed. Another eight per cent did not know. Introduction of performance contract initiatives will enhance better service delivery by public institutions Employees' perceptions in an organization are crucial to its success since the driving force behind the success rests on them. This is developed overtime and can change as new procedures, practices and experiences are adopted and acquired.

This observation qualifies [5] who asserted that Some of the problems experienced during the implementation of the performance contract were mainly of an internal nature. But looked at on a broader perspective these however point out on the internal inefficiencies that plague many of the public agencies. According to Kobia and Mohammed some of these include: the lack of adequate resources, resources not being released on time; some performance targets were highly ambitious and unplanned transfer of staff. Stability of resources enhances the motivating effect of the contract. When resources are not available or availed late, the staff involved gets frustrated.

5.2 Correlation Analysis

In this subsection a summary of the correlation and regression analyses is presented. It seeks to first determine the degree of interdependence of the independent variables and also show the degree of their association with the dependent variable separately. Pearson correlation coefficients (r) can take on only values from -1 to $+1$. The sign out the front indicates whether there is a positive correlation (as one variable increases, so too does the other) or a negative correlation (as one variable increases, the other decreases). The size of the absolute value (ignoring the sign) provides an indication of the strength of the relationship. A perfect correlation of 1 or -1 indicates that the value of one variable can be determined exactly by knowing the value on the other variable. Correlation coefficient between $.1$ and $.29$ indicate low correlation, between 0.3 to 0.49 indicate medium correlation, and between 0.5 to 1 high correlations while correlation less than 0.1 signify no correlation between the variables. The level of significance chosen for the study was set at 0.05 . These results are summarized in Table 2

Table 2: Correlation Statistics

Measures for implementation	Pearson Correlation	1	
	Sig. (2-tailed)	0.01	
Extent of implementation	Pearson Correlation	.192*	1
	Sig. (2-tailed)	0.027	
Effectiveness of performance contracting on service delivery	Pearson Correlation	.478**	.220*

**. Correlation is significant at the 0.01 level (2-tailed).

A correlation analysis to determine measures taken to implement PCs in public institutions and its influence on service delivery shows a relationship exists ($r = 0.478$, $\alpha = 0.01$). This suggests that the measures taken for implementation of the performance contract by administration were important for implementation of performance contracts and service delivery. A correlation analysis to determine whether, the extent of implementation of performance contract had an influence on implementation of performance contracts and service delivery. This showed that a relationship existed ($r = 0.220$, $\alpha = 0.05$).

6. Conclusion

The major thrust of the reform agenda that Kenya has been pursuing involves the adoption and introduction of multiplicity of measures intended to improve service delivery. These measures originated from the need to show demonstrable gains from reform following the pains imposed by the structural adjustment reform period; responding to public demands for accountability and transparency; influence of new public management ideas as well as a shift to market economies and private sector-led economic development among others.

Performance contracting tool is emerging as a very efficient and effective planning tool which bring to the fore various aspects of an organization, some of which are often ignored. Corporate planning and the itemization of annual work plans, adequately supported by budgetary provisions and

delineation of lines in addition to levels of responsibility for performance as well as effective measurement is an effective tool for management of public resources.

7. Recommendation

It is recommended that various measures need to be put in place to entrench performance contracting in entire public service and if possible to the smallest units of operation. Measured factors leading to effectiveness of performance such as organizational productivity, employees' motivation, organizational effectiveness and organizational culture and government policy need to be broken down to their specific indicators to enable close follow up. Employees' motivation, involvement and training on performance contracting play a key role hence need for strengthening.

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