

An Investigation of the Effects of Performance Contract on Service Delivery: A Case Study of the Nakuru Sub-County in Nakuru County, Kenya

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Abstract: *Organizations today face turbulent and rapid changing external conditions that are translated into a complex, multifaceted and interlinked stream of initiatives. These are affecting work and organizations design, resource allocation, systems and procedures in a continuous attempt to improve performance. With these environmental changes, the public sector has come under intense pressure to improve their operations and processes so as to reduce its reliance on public funding. This study sought to investigate the effect of performance contract on service deliver with particular reference to the Nakuru Sub-County in Nakuru County. The study adopted case study research design targeting a population of 375 employees. Stratified random sampling technique was used to select a sample size of 113 employees. Primary data used in this study was collected using a structured questionnaire. Data was analyzed using both descriptive and inferential statistics. The descriptive statistics included those of the mean, percentages and standard deviation while the inferential statistic involved use of T-test. The study revealed that that performance contracting has enhanced service delivery in the Nakuru Sub-County. The study therefore recommends that local government authorities as well as other state corporations should adopt performance contracting as a tool of enhancing efficiency in the public sector.*

Keywords: Performance contracting, service delivery, public service

1. Background to the Study

Performance Contract system originated in France in the late 1960s. It was later developed with great deal of elaboration in Pakistan and Korea and thereafter introduced in India. It has been adopted in developing countries in Africa, including Nigeria, Gambia, Ghana and now Kenya (Kobia & Mohammed, 2006). The use of Performance contracts has been acclaimed as an effective and promising means of improving the performance of public enterprises as well as government departments all over the world. Its success in such diverse countries as France, Pakistan, South Korea, Malaysia and India has sparked a great deal of interest in this policy around the world. A Performance contract is a freely negotiated performance agreement between government, organization and individuals on the one hand, and the agency itself on the other (GoK, 2005).

The Government of Kenya adopted performance contracting as a tool for managing public resources and as a management accountability framework. Hitherto, management of public resources focused on processes and inputs rather than outputs and results. Performance contracts are deliberately designed to ensure that institutions take into consideration all the perspectives of an institution's performance (Letangule & Letting, 2012). According to the Government of Kenya, before the advent of performance contracting, the basis for determining a manager's performance was purely on perception and processes, and managers were not comfortable being evaluated on the basis of perceptions. The introduction of performance contracts compelled all public institutions to prepare and submit quarterly performance reports to designated agencies, and annual performance reports to the Performance Contracts Secretariat.

Performance based contracting has been identified by both the private and public sectors as an effective way of providing and acquiring quality goods and services within available budgetary resources. Whereas within the private sector, profit orientation and competitiveness have necessitated the introduction of performance contracts, the public sector has taken long to embrace the practice, especially in Local Authorities (Omboi, 2011). The public sector has come under intense pressure to improve their operations and processes so as to reduce its reliance on exchequer funding. Further, there is need to increase transparency in operations and utilization of public resources, increase accountability for results and to deliver services more efficiently and at affordable prices to the tax payer/ customer thereby, forcing governments to institute reforms in the public sector (Akaranga, 2008).

The endeavor to improve service delivery saw a number of performance improvement initiatives being put in place. These included emphasis on the adoption of private sector business management ethos in the lines of New Public Management principles. The reform programme in Kenya as in many countries, promised a lot both to the citizens and the public servants, promises which were not being fulfilled fast enough. With very little results to show after about five years of implementing reforms, the Government through a World Bank sponsored programme and policy hired a team of private sector 'experts' into the public sector through short term contracts to inject the sense of urgency in improving service delivery which was thought to be lacking in career public servants (Morris & Winnie, 2005).

Local Governments are strategic institutions for the provision of basic socio-economic and environment services. Their strategic position makes them valuable and viable for providing effective and efficient services required by the community. They also provide platforms

where community members exercise their democratic rights by electing their representatives who in turn coordinate the provision of the local services. In 2005, the Ministry of Local Government placed the management of all the 175 Local Authorities on performance contracts with the hope that this would improve service delivery to citizens (GoK, 2008).

Service provision by the local authorities in the recent years has been deteriorating. Moreover, public servants have been a target for criticism due to what is perceived by recipients of government services as unsatisfactory service delivery. This state of affairs has resulted largely from systems of management in government which put emphasis on compliance with processes rather than results. Whereas the general public and even some public servants welcomed the idea of performance contracting as a means of measuring performance, it was not readily accepted by everybody. Some saw it as a rigorous exercise that amounted to little if any. In terms of service delivery, majority of recipients of Government services have faulted it claiming that it had had very little positive effect. Close scrutiny of the management and performance of existing local authorities shows that most local authorities in Kenya are poorly managed and that there is disillusionment with the performance, management and competence of local authorities in providing the services that they are mandated to provide. As a result, there has been a rising number of residents associations which are prepared to resort either to court action or to campaigns aimed at withholding of the rates due to councils as a mechanism for compelling local authorities in Kenya to provide services on a regular basis.

1.1. Objectives of the Study

The specific objectives of this study were:

- 1) To determine the extent to which employees understand the major aspects of performance contract in the Nakuru Sub-County.
- 2) To establish how the implementation of performance contract affects employees' performance in the Nakuru Sub-County.
- 3) To determine the effects of performance contract on service delivery, customer and employee satisfaction in the Nakuru Sub-County
- 4) To document the factors inhibiting the implementation of performance contract in the Nakuru Sub-County.

1.2. Limitations of the Study

This study encountered some limitations as follows;

- 1) There was difficulty in accessing the respondents due to their busy schedules and getting information which some felt was confidential.
- 2) Some of the employees were unwilling to complete the questionnaires. Others were out rightly reluctant and kept the questionnaires for weeks only to return them unfilled.
- 3) Performance contracting is itself a large area of study. Thus, not all aspect of contracting could be considered in this study.

2. Review of Literature

2.1. Historical Analysis of Performance Contracting

Performance Contracting As part of broader Public sector reforms aimed at improving efficiency and effectiveness in the management of Public service. The definition of Performance Contracts itself has been a subject of considerable debate among the scholars and human resource practitioners. Performance Contracting is a branch of management science referred to as Management Control Systems. A Performance contract is freely negotiated performance agreement between Government, organization and individuals on one hand and the agency itself (Kenya, Sensitization Training Manual, 2004). It is an agreement between two parties that clearly specify their mutual performance obligations, and the agency itself. The concept of performance contracting has its origin traced to France in the late 1960's. It was later developed with great deal of elaboration in Pakistan and Korea and thereafter introduced to India (OECD, 1997). It has been adopted in developing countries in Africa, including Nigeria, Gambia, Ghana and now Kenya. Governments all over the world view performance contracting as a useful vehicle for articulating clearer definitions of objectives and supporting new management monitoring and control methods while at the same time leaving day-to-day management to the managers themselves. It organizes and defines tasks so management can perform them systematically, purposefully and with reasonable probability of achievement.

Following their independence in the early 1960s, most African countries supported the idea of a strong central government to secure social justice for all citizens. Prior to this period the business environment was rather stable and therefore strategic planning was entrusted in the hands of the top management of the organization. This practice was counterproductive as managers who were implementers of the strategic plans were not involved at the formulation stage. Due to increased environmental turbulence in the early 1970's, top executives were forced to recast the way they looked at their business for survival. They redefined performance management as a proactive management tool for achieving business goals and objectives, through a structured and continual process of motivating, measuring and rewarding individual and team performance (Aosa, 2000). Earlier, management tools for example the Carrot-and-Stick policies and behaviour which were common in the 19th Century Industrial Age had become increasingly irrelevant to modern management practices and therefore, this called for more flexible and adaptability in strategic planning, forcing managers responsible for implementing strategies be involved in all stages of strategy formulation (Barclays Africa, 1997).

The public service (ministries, parastatals and extra-ministerial departments) has always been the tool available to African governments for the implementation of developmental goals and objectives. It is seen as a pivot for growth of African economies. It is responsible for the creation of an appropriate and conducive environment in which all sectors of the economy can perform optimally, and it is this catalytic role of the public service that propelled

governments all over the world to search continuously for better ways to deliver their services. It is generally regarded as the pivot that will promote socio-economic development. The basic function of the public sector, which comprises a number of institutions for the making and implementation of decisions with regard to interests of various kinds, was to provide goods and services to citizens based on "realization and representation of public interests and its possession of unique public qualities compared to business management" (Haque, 2001).

2.2. Introduction of Performance Contracts in Kenya

The main purpose of performance contracting according to Armstrong and Baron (2004) is to ensure delivery of quality service to the public in a transparent manner for the survival of the organization. Hope (2001) points out that performance contracts specify the mutual performance obligations, intentions and the responsibilities which a government requires public officials or management of public agencies or ministries to meet over a stated period of time. The push factor for introduction of performance contracting in Kenya underlies the assumption that institution of performance measurements, clarification of corporate objectives, customer orientation and an increased focus towards incremental productivity and cost reduction can lead to improvements in service delivery (GOK, 2003)

Just like in many other developing countries, there is a widespread perception in Kenya that ever since its independence performance of the Kenyan public service has been deteriorating. This state of affairs has resulted largely from systems of management in government which put emphasis on compliance with processes rather than results (Trivedi, 2008). The Civil Service inherited at independence had not been designed to grapple with development needs of post-independence Kenya. The pre-occupation of the administration throughout the colonial period had been with system maintenance. As a result the only institutions that were well developed were those responsible for maintenance of law and order. The reforms being undertaken are nevertheless a continuation of activities which the government has engaged in since independence. What is important to take account of is that the launching of the on-going reform efforts was necessitated by need to address the declining performance of the Public Service in spite of the many reforms which had been carried out. Traditionally, the shortcomings of the public sector were seen as organizational problem capable of solution by appropriate application of political will, powerful ideas and managerial will. The overriding concern with economic growth has led to a refocusing. Over the years, poor performance of the public sector, especially in the management of public resources has hindered the realization of sustainable economic growth

2.3. Implementation of Performance Contracting in Kenya

The Kenyan government acknowledges that over the years there has been poor performance in the public sector, especially in the management of public resources which has

hindered the realization of sustainable economic growth (GoK, 2005). In this regard, the Public Service Reforms in Kenya can be traced back to immediately after independence in 1963. Sessional Paper No. 10 of 1965 on African Socialism and Its Application to Planning in Kenya outlined the first institutional framework for reforms. The reforms were aimed at addressing three challenges facing the government at the time namely disease, poverty and illiteracy. The main focus was on Africanization of public service, land reforms among others with the objective of improving service delivery and performance. Others reforms were later introduced focusing on performance improvement and remuneration for better service delivery. Sessional Paper No. 1 of 1986 on Economic Management for Renewed Growth later paved the way for wider public service reforms. Notable among these was the Structural Adjustments Programme (SAP) which aimed at lessening Government control on the economy, recognizing and harnessing the potential of the private sector as the engine for growth, and staff retrenchment as a way of reducing the civil service wage bill. Noting that Public Service efficiency sets standards for other sectors, the government launched the Civil Service Reform Programme in 1993 to enhance Public Service efficiency and productivity. The reforms were expected to facilitate equitable wealth distribution necessary for poverty alleviation and create an enabling environment for investment and enhanced private sector growth. The Civil Service Programme was designed to proceed in three phases: Phase 1 – Cost containment; Phase 2 –Performance Improvement, and Phase 3 – Consolidation and sustenance of gains made by reform initiatives. While phases 1 and 2 succeeded in reducing the Civil Service workforce by 30% (from 272,000 in 1992 to 191,670 in 2003), productivity and performance remained a fleeting illusion. This paved way for introduction of Results-Based Management (RBM) guided by the Economic Recovery Strategy (ERS) for Wealth and Employment Creation (2003-2008). All governments would like to be more efficient, more cost effective, more accountable and more responsive. The difficulty is that although failure flaunts itself and is easily spotted, success is more modest. It is easier to identify what the public service must escape from than to point out exactly where it must go. In 1990 the Government approved the introduction of Performance Contracts in the management of public agencies. A few state corporations attempted to develop variants of performance contracts that were however, not implemented. In 2003, the Government made a commitment to introduce performance contracts strategy as a management tool to ensure accountability for results and transparency in the management of public resources. To that end a Performance Contracts Steering Committee (PCSC) was established in August 2003 and gazetted on 8th April, 2005 with a mandate to spearhead the introduction and implementation in the entire public sector.

2.4. Outcomes of Performance Contracting in Kenya

In general, performance contracting has induced the public service to become more oriented towards customers, markets and performance, without putting the provision of essential public services into jeopardy. Consequently, the expected outcomes of the introduction of performance

contracts include: improved service delivery; improved efficiency in resources utilization; institutionalization of a performance-oriented culture in the public service; measurement and evaluation of performance; reduction or elimination of reliance of public agencies on exchequer funding and enhancing overall performance. The underlying assumption driving the performance contracting concept is that 'once performance can be measured and performance shortfalls identified (including non-performers), actions can be taken to address the shortfall (Jones & Thompson, 2007). Performance evaluation, and by extension contracting is therefore based on the premise that 'what gets measured gets done. The use of performance-based contracts has induced an increased cost consciousness. As a result, there is a positive financial return to the government in case performance results exceed set targets. These positive correlations are dependent, however, on developments of the overall budgetary position of the government and are therefore limited (Akaranga, 2008). Performance contracting has been instrumental in helping state corporations and government ministries to introduce instruments to monitor client satisfaction. Examples of such instruments are the client help desks in all government ministries, accessible complaint channeling via the internet

and other avenues, and annual reporting of performance and challenges to the public (Bouckaert, Verhoest & De Corte, 1999). Most state corporations and government ministries in Kenya now have functional customer care and public relations offices. These offices have acted as valuable instruments for introducing a client focus (Akaranga, 2008).

Conceptual Framework

Management-by-objectives job improvement plan model was used to provide the theoretical underpinning for this study. The job improvement plan is an action document. It sets out the actions which need to be taken in order to ensure that key tasks are fulfilled to the required standards. The model emphasizes on setting standards and specifying results for all managers at the operating level of the institution. Accordingly, the appropriate key task is identified and priority actions are set alongside it, together with a target date. This model is applied to performance contracting in the County Council because it makes it possible to quantify the efforts of the managers and employees.

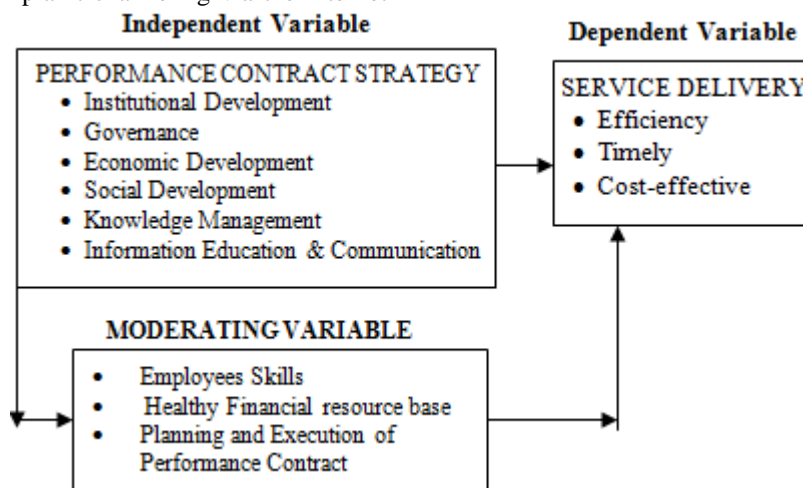


Figure 1: Conceptual Framework Diagram

3. Methodology

Case study research design was employed in this study. A case study is an in-depth analysis of a phenomenon. This design was chosen because it describes more appropriately the nature of the phenomenon and examines actions as they are or as they happen rather than manipulation of variables (Orodho 2005). Mugenda and Mugenda (1999) also observe that case study research design enables the researcher to explain as well as explore the existing status of two or more variables of a phenomenon or population. This design was best suited for this study because it enabled the researcher to analyze and describe more appropriately the effects of performance contracting strategy on service delivery in the Nakuru Sub-County. Stratified random sampling technique guided sample selection for this study since the target population of subjects from each department was heterogeneous. Using simple random sampling, subjects to be used in the actual study were selected from each stratum. The rule of the thumb in social sciences according to Gay

(1992) is to take 30% of the population as a sample size. Consequently, 113 council employees were selected to be used in the study

4. Results and Discussion of Findings

Employees Assessment of the Effectiveness of Performance Contract in Improving Service Delivery

The study sought to establish employees' understanding of various aspects of performance contract. Majority of the respondents 90 (91.84%) summed their understanding of performance contract as to improve performance/enhance efficiency and effectiveness in service delivery through a transparent and accountable manner while a paltry 8 (8.16%) summed their understanding of performance contract as enhancing bureaucracy and paper work with little effect on service delivery.

Table 1: Level of Agreement on various statements on the effects of performance contract in improving service delivery

Descriptive Statistics				
Item	N	Sum	Mean	Std. Deviation
PC helps develop my skills and potential	98	388	3.96	.973
PC helps me do my work better	98	383	3.91	1.253
PC has improved communication with the public	98	385	3.93	1.133
I have received adequate training in PC	98	354	3.61	.768
Assessment of my performance is consistent	98	383	3.91	1.036
the performance standard agreed with my manager are realistic	98	384	3.92	1.090
I get useful feedback from my performance contract review	98	381	3.89	1.174
PC process is bureaucratic and time consuming	98	353	3.60	1.290
PC makes me be part of the organization	98	363	3.70	1.186
PC is about managers controlling people	98	238	2.43	1.300
PC have no value to individuals	98	207	2.11	1.130
Objectives of PC are well communicated and fully understood	98	370	3.78	1.312
PC is a distraction from more important core activities	98	169	1.72	.883
PC provide away for people to discuss their performance openly and honestly	98	408	4.16	1.091
Valid N (listwise)	98			

Further the study established the respondent's level of agreement on various statements that relate to the effect of performance contracting in improving service delivery. From the data generated, most respondents cited that performance contract provides a way for people to discuss their performance openly and honestly, helps them develop their skills and potentials, and improved communication with the public as indicated by the high means of 4.16, 3.96 and 3.93 respectively. The least cited item was that

performance contract was a distraction from more important core activities comprising a mean of 1.72.

4.5. Managers Views on Effectiveness of Performance Contracts in Improving Service Delivery

The study sought views from the managers' on the effectiveness of performance contracts in improving service delivery.

Table 2: Level of Agreement by managers on various statements on the effects of performance contract in service delivery

Descriptive Statistics			
Item	N	Mean	Std. Deviation
PC helps me motivate my team	6	4.67	.516
PC has improved communication with the public	6	3.83	1.169
PC helps me develop skills and capabilities of my team	6	4.33	.816
PC helps me communicate to my team what is expected of them	6	4.33	.816
PC helps my team perform better	6	4.50	.548
I have not been adequately trained to get the best out of the PC system	6	2.67	.516
I give consistent and fair ratings to members of my department	6	4.67	.516
I am not comfortable with conduction PC reviews	6	1.83	.753
Data generated from PC 3.reviews is unproductive and of no value	6	1.50	.548
I have no difficulty in agreeing PC standards with members of my department	6	4.33	.816
Documentation associated with PC is unclear and unproductive	6	1.33	.516
Valid N (listwise)	6		

From the data generated, the study revealed that majority of the managers motivate members of their department through performance contract, have consistently and fairly rated employees under them and have no difficulty in agreeing with members of their departments on performance contract standards as indicated by high means of 4.67, 4.67 and 4.33 respectively. On the other hand, the least cited item was that documentation associated with performance contract is unclear and unproductive, performance contract reviews are unproductive and have no value and that HODs' are uncomfortable conducting performance reviews as indicated by the low means of 1.33, 1.50 and 1.83 respectively. The study further sought to establish from the managers how performance contract had impacted their work. Most of the HoDs' stated that their work had become more satisfying while others had divided opinions about the effect of performance contract on their work.

Managers' views on the Factors Affecting Implementation of Performance Contract in Nakuru County Council

The study sought data from heads of departments on the factors affecting the implementation of performance contract in Nakuru County Council. Most HODs' cited that lack of adequate resources as the main hindrance to effective implementation of performance contract. Furthermore, they pointed out that the Government's delay in releasing funds to the local government affected effective implementation of performance contract. Unplanned transfer of staff was also cited as hindering the implementation of performance contract. Finally the HODs' pointed out that some performance targets were highly ambitious and hence unachievable.

Table 3: T-test Output of Employees Mean Scores

One-Sample Test

Variables	Test Value = 0				
	T	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference Lower Upper
How long have you worked in your organization	28.195	97	.000	3.449	3.21 3.69
State your gender	28.052	97	.000	1.388	1.29 1.49
What is your level of education	21.389	97	.000	2.398	2.18 2.62
PC helps me do my job better	30.930	97	.000	3.898	3.65 4.15
PC has improved communication with the public	34.328	97	.000	3.929	3.70 4.16
PC helps me develop my skills and potential	40.281	97	.000	3.959	3.76 4.15
I have received adequate training in performance management	37.185	97	.000	4.000	3.79 4.21
Assessment of my performance are consistent, fair and unbiased	37.333	97	.000	3.908	3.70 4.12
PC standards agreed with my boss are realistic	35.571	97	.000	3.918	3.70 4.14
I get useful feedback from my PC review	32.774	97	.000	3.888	3.65 4.12
PC process is bureaucratic and time consuming	27.637	97	.000	3.602	3.34 3.86
PC makes me part of the organization	30.961	97	.000	3.724	3.49 3.96
PC is about managers controlling people	18.490	97	.000	2.429	2.17 2.69
PC has no value to individuals	18.512	97	.000	2.112	1.89 2.34
PC is a distraction from more important core activities	17.197	97	.000	1.786	1.58 1.99
PC provides a way for people to discuss their performance openly and honestly	38.120	97	.000	4.163	3.95 4.38

Source: Primary Data

The T-test analysis indicates that the T value for the variables is positive. The significance difference is within 0.05 level of significance. Thus, performance contracting has had a significant positive difference. Thus, based on this analysis it can therefore be concluded that the introduction of performance contracting has had significant positive effect on service delivery in the Nakuru Sub-County.

5. Summary of Findings

The first objective of this study sought to determine the extent to which employees understood the major aspects and operation of performance contract. This was analyzed through employees understanding about performance contract. Majority of the respondents 90 (91.84%) summed their understanding of performance contract as a result oriented system aimed at improving performance/enhance efficiency and effectiveness in service delivery through a transparent and accountable manner while a paltry 8 (8.16%) summed their understanding of performance contract as enhancing bureaucracy and paper work with little effect on service delivery. These findings are consistent with literature indicating that use of Performance contracts has been acclaimed as an effective and promising means of improving the performance of public enterprises as well as government departments all over the world (Kobia & Mohammed, 2006).

The study additionally sought to establish how the implementation of performance contract affects employees' performance. In this respect, the study established that performance contracting has enhanced employees' performance as they understood their targets more clearly and worked towards achieving them. The employees generally have a positive attitude towards performance contracting.

The third objective was to determine the effects of performance contract on service delivery. This study has established that performance contracts have had varied positive effect on the performance of the council. To this end, the study findings revealed that performance contracting has enhanced performance of Nakuru County Council in the areas of service delivery. These findings agree with those of Akaranga (2008) that introduction of performance contract initiatives will enhance better service delivery by public institutions.

The fourth objective of this study was to document the factors inhibiting the implementation of performance contract. The performance contracting management system in the local council has brought three main challenges as identified by this study. Firstly, meeting the performance targets has been cited as a challenge. This can be attributed to the fact that some performance targets were highly ambitious and hence unachievable. It is also possible that since the managers are not involved in determining rewards for improved performance, they see no reason to exceed targets. The second challenge identify by the study was the periodic monitoring of results as one of the principles of performance contracts. It is possible also that the instruments set to promote coherence and enhance the efficiency of the system are hindered by lack of well-defined evaluation mechanisms. There is need to adopt and implement good corporate governance in fulfilling the performance contracts. The third challenge that the study revealed is that lack of adequate resources has hindered effective implementation of performance contract. There is need for the council to council to diversify its sources of revenue so as to effectively implement performance contract

5.1. Conclusions and Recommendations

The study concludes that performance contract has been a successful tool in improving service delivery in the county council under study. Further the study can infer from the

improved service delivery that performance contracting as a management tool has encouraged proper utilization of resources and has encouraged participation in the decision making process of the organizations. Overall, performance contracting has induced the public service to become more oriented towards their clients and performance. The study also concludes that the council needs to avail requisite resources necessary for implementation of performance contracts.

Based on the analysis of the study, the researcher wishes to make the following recommendations:

- 1) On the basis of these findings, it is recommended that the government provides adequate resources to the local authorities for effective implementation of performance contract.
- 2) Further, it is recommended that for effective implementation and desired outcomes, all employees need to be sensitized through structured training programmes to enable them understand the various aspects and components of performance contract.
- 3) This study recommends that employees should be made aware of how the performance contract evaluation mechanism
- 4) It is recommended that employees be included in determining rewards for improved performance. This will go a long way in motivating them to exceed their set targets.
- 5) Finally, the study recommends that performance contracting should be retained in Local Government Authorities as a tool for enhancing performance.

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