The Effects of Performance Contracting on Service Delivery in the Public Sector: Focus on the Supply Chain Department of Moi Teaching & Referal Hospital-Eldoret Kenya

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Abstract

The Government of Kenya introduced Performance Contracting (PC) in the Public Service as one of the tools to improve service delivery. Generally, it's widely perceived that the PC has not brought any meaningful change in the quality of service delivery to the populace. The government of Kenya's performance management is a unique approaches in the world aimed at improving service delivery in the public sector. Such efforts have been tried in Malaysia, Singapore and even in the US and the outcome has bore mixed results

Key words: *Performance contract, service delivery*

1. Introduction

There has been several Government initiatives since 2002 meant at improving delivery of services. The enactment of the Public Procurement and Disposal Act, 2005 was meant to streamline procurement efforts within government and avoid wastage of resources. The Anticorruption and Economic Crimes Act, 2003 are among several other initiatives that have generally contributed to overall government performance and service delivery. The current performance management system popularly known as performance contracting in government was introduced in 2004. Since then, the system has gone through its own measure of successes and challenges- *LOG ASSOCIATES, Evaluation of Performance Contracting, Final Report, 31st March, 2010.* Performance management is aimed at improving service delivery in the public sector and these efforts have been tried applied elsewhere including Malaysia, Singapore, US, among others with generally mixed results. Performance contracting in Kenya is still in formative stages. However, within its few years of existence, the system has registered mixed results. Whereas, in some sectors, the system has contributed significantly to improve administrative and financial performance, in others, results are yet to be realized. The lack of universal acceptability was one of the reasons various institutions began participation in the system at different times. The bulk of the institutions registered their first participation in 2005/2006 though introduction of performance contracting in some government institutions has been met by resistance.

1.1 Performance Contracting

Performance contracting constitutes a range of management instruments used to define responsibilities and expectations between parties to achieve mutually agreed results. It is a useful tool for articulating clearer definitions of objectives and supporting innovative management, monitor and control methods and at the same time imparting managerial and operational autonomy to public service managers.

Performance contracting originated in France in the late 1960s and has been used in about 30 developing countries in the last fifteen years. Performance contracting use 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. The latest country to adopt the system is Rwanda.

A large number of governments and international organizations are currently implementing policies using this method to improve the performance of public enterprises in their countries. International experience with privatization suggests that the process of implementing a well-thought-out privatization program is lengthy one. Therefore, in the interim, it is imperative that immediate steps be taken to increase the efficiency of the public enterprises and reduce further drain on the country's treasury resulting from their losses.

A rigorous performance contract exercise reveals the 'true' costs and benefits associated with a particular public enterprise. This, in turn, provides a valuable basis for privatization. Similarly, the Performance Contracts with government departments are being used extensively in OECD countries have had success in improving the performance of their own public sector by designing Performance Contracts after carefully examining and adapting to their particular needs the lessons of the vast international experience with regards to Performance Contracts.

1.2 Public Sector Reforms in Kenya

Public service in many African countries is confronted with many challenges, which constrain their delivery capacities. They include the human resource factor, relating to shortages of the manpower in terms of numbers and key competencies, lack of appropriate mindsets, and socio-psychological dispositions. There is also the perennial problem of the shortage of financial and material logistics that are necessary to support effective service delivery. On the other hand, the gradual erosion of the ethics and accountability has continued to bedevil the public sector in delivering public services to the people effectively. Public sector reforms meant to address these challenges have achieved minimal results- *Lienert, I. (2003) "Civil Service Reform in Africa: Mixed Results after 10 years"*

According to the *PC guidelines for the years 2008/2009 published by the department*, it is a requirement that all public institutions prepare performance contract. The strategic Plan is a cornerstone for the implementation of a performance contract. The strategic objectives in the strategic plans of public institutions should be linked to government policy priorities and the objectives as set out from time to time, in such policy publications as the National Development Plan and the Vision 2030. In the case of public institutions which do not have strategic plan in place at the time of preparing a performance indicator under the "Non-financial" performance criterion. The institutions were also to come up with Citizen Service Delivery Charter and carry out Customer Satisfaction Surveys.

1.3 Public Resources Accountability in Kenya

Opiyo, H. (2OO6) in his discussion paper series "Civil Service Reform Policy in Kenya" states that in an effort to achieve the objectives and targets of Economic Recovery Strategy and to manage performance challenges in public service, the government adopted Performance Contracting (PC) in public service as a strategy for improving service delivery to Kenyans. Performance Contract is one element of broader public sector reforms aimed at improving efficiency and effectiveness. While reducing total costs.

Kenya's public financial and accountability framework is anchored in the constitution and several Acts of Parliament. Articles 48 and 99-105 of the constitution deal with issues of public finance and its management. Several institutions have been in place playing varying roles in the accountability framework set out under the constitution and Acts. Some of these key institutions include: parliament, Kenya Revenue Authority, National Audit Office.

Oyugi, L. N. (2005)notes in his research paper "The budget and Economic Government in Kenya" that the Controller and Auditor General (C & AG) is charged with the mandate of overseeing public finance under the Exchequer and Audit Act (Cap 412) of the laws of Kenya. However, by 1997, it was noted that management of public finance in Kenya was riddled with irregular withdrawal from consolidated fund, delays in the production of audit reports, laxity in acting upon audit recommendations and limited financial and human resources capacities for the controller auditor general's office.

2. The Medium Term Expenditure Framework (MTEF)

MTEF defines a three-year rolling macroeconomic framework, which outlines the overall resources envelope and forms the basis for setting of national priorities and expenditure priorization. It was introduced in Kenya in 1997 (though its implementation started in 200/01) after the government and the World Bank carried out a Public Expenditure management such as poor macroeconomic management, declining credibility of budgetary process, and declining quality of public Investments. The MTEF strategy had two main objectives: create a macroeconomic environment that will attract both foreign and domestic private investment by supporting efficient production and to ensure that the Budget Process and Economic Government in Kenya public resources are utilized effectively in supporting high growth of income and employment.

2.1 Performance Contracting in the three arms of Government

Performance contracting is currently being implemented in the executive arm of government as both Judiciary and Legislature are yet to sign the PC

2.2 Executive

Performance contracting in the executive expanded from a pilot group of 16 commercial public enterprises in 2004, to eventually cover the entire public service in Kenya, comprising the following institutions: 38 Ministries and Accounting Departments, 130 Public Enterprises, 175 Local Authorities (i.e. City/Municipalities, County, and Town councils), 68 Tertiary Institutions, Government Ministries/ Departments, State Corporations/ Statutory Boards, Local Authorities, Public Universities, Government Tertiary Institutions.

Extension of Performance Contracts to local authorities has ensured inclusion of grass root level communities in ensuring achievement of Kenya's Vision 2030. The initiative has turned out to be a powerful tool in restoring and building trusts in a government that the public had almost lost hope in the government came up with innovations to systematically demystify government and the process of governance, through creation of synergies in the relationship with citizens by involving and empowering the public to demand accountability from holders of public office through a series of innovations.

2.3 Legislature

There is a general concern that the MPs take a hefty package and allowances which are seconded by grants and loans, at the expense of the Kenyan populace. But in comparison with the amount of time they spare for debating sessions in the chambers, which are frequently hit by lack of quorum, and the amount they are been paid, is a total contrast. They have also refused to remit taxes on their taxes on their allowance, after they rejected to amend a section of law which would have guaranteed taxation of their allowance. To enhance service delivery, maintaining and enhancing the Kenya National Assembly's linkages to the general public, as well as institutions, both public and private, the Public Relations Department of the National Assembly was established by the Parliamentary Service Commission. The Department provides the external façade of the National Assembly.

2.4 Judiciary

They have a 2009/2012 Strategic Plan which was released at a time when the Judiciary was facing various challenges such as poor public image, inadequate infrastructural facilities, inability to attract and retain staff due to low remuneration and inadequate budgetary allocation, in its efforts to attain efficient administration of justice. The Strategy embraces the development philosophy in Vision 2030 which seeks to ensure adherence to the rule of law applicable to modern, market-based economy in a human rights-respecting state. This plan commits the Judiciary to participate in programs and activities that will increase service availability and access to justice.

The judiciary has previously indicated that the institution is ready to participate in PC. THE pc process would however need to be internalized and institutionalized to ensure its effectiveness. Further, there are indications that there has been some level of consultations between the judiciary and the PCD. Therefore, to move forward, there is need that:

a) PCD conducts a structured follow-up with the office of the registrar to provide technical guidance on how the above process can be achieved.
b) Such consultations in (a) should result in the development of action plans and timelines to be adhered to.

2.5 Pre-requisites for Effective Implementation of PC

Performance contracting is an accountability framework that cans only function effectively when certain conditions are enabling. Some of these pre-conditions are:

a) Legal and Regulatory Framework

A fundamental prerequisite for Performance Contracts is the introduction of a sound policy, legal and regulatory reforms must be in place before Performance Contracts can take place. The understanding of the legal and regulatory principle is essential.

b) Structural Efficiencies

Structural efficiency in the public sector is important as it enhances transparency and accountability. For example, over the years, the sugar sector has been underperforming due to structural problems. These need to be sorted out by all the stakeholders.

c) Enabling Political Environment

Political environment affects the performance of a country as seen from Kenya's GDP growth. Since 2003, the economy saw a growth path after registering a 3.4% growth in the same year. By the 2004, the economy grew by 4.3%, and then picked in 2006 when it recorded a 6.1% growth rate. Before the post election violence, the economy in 2008 grew at a meager 1.7%. This is a reflection of how political environment can have an impact on fundamentals of PC.

d) Corruption Eradication

Corruption adversely affects capital inflows by creating an unpredictable investment environment as it is an indication of breakdown in law and order. The impression that, for example, judicial decisions are available for sale is unacceptable in civilized societies. Corruption also lowers capital productivity. Anti-corruption reform strategies should be enhanced while Public sector reform aimed at increased bureaucratic quality, improving government stability and expanding civil liberties should be given priority if PC is to be successful.

e) Competencies

For effective implementation of PC, the public service must be competent, well focused and effective. To achieve this, the public service should be adequately trained. There should also be continuous capacity building, research and development to ensure improvement and sustainability of PC process.

f) Competitive Culture

It's necessary for PC to be effective. Competitiveness means that government policies must be geared towards enhancing productivity of the economy, reducing cost of doing business and supporting entrepreneurship, innovativeness and R & D. the global community encourages competitiveness at various levels. For example, *the World Bank through the World Economic Forum annually publishes the Global Competitiveness Report for world economies.* A similar initiative between the World Bank and the African Development Bank results into the annual production of the African Competitiveness Report. Both are respected publications across the globe public officials therefore; need to adopt a culture of competition and benchmark their performance with global standards set out by various institutions.

g) Management Practices

For good measure, some parastatals out-source the recruitment of professionals' agencies. *Dlamini, M. P. (2001) in his paper "Contract plan and public and enterprise performance"* notes that despite clear stipulations aimed at securing transparency and competiveness, appointment to public offices remains a thorny issue. On paper, the government vouches for open and competitive recruitment of top officials like chief executives of parastatals, directors of departments, university vice-chancellors and othes. In pursuit of this, the Public Service Commission or respective parastatal boards routinely advertise for vacant positions and interview qualified candidates. For a good measure, some parastatals out-source the recruitment to professional agencies.

2.6 Impact of Performance Contacting

PC is a relevant tool which has given the government an opportunity to set priorities and works towards them. Institutions work hard towards attainment of its targets. The understanding of PC has grown over the years and has been improving within the last five years. The outcomes of its introduction includes: improved service delivery,, improved efficiency in resource in resource utilization, institutionalization of performance-oriented culture in the public service, measurement and evaluation of performance, reduction or elimination of reliance of agencies on exchequer funding and enhancing overall performan

2.7 Finance and Administration

Public institutions are reporting improvement in financial and administrative efficiency. Whereas such progress may be due to a number of other factors e.g. the myriad of reforms in the government financial management systems, PC as an accountability tool has contributed in its own way to this improvement. Accounting officers reported improvement in several aspects of finance and administration.

3. Research Design

This was an explanatory case study where some aspects and their causal interrelationships where qualitatively studied in minute details and data generalized and inferences drawn. Secondary data was attained from existing literature and a survey from PC's stakeholders and analysis of 'insight-stimulating' examples from the past and present PC situation in MTRH's SCD. The research sought to discover insights which were flexible, open and enabled the research to collect a wide range of subject's data and impression. The research focused on the SCD's 5 internal and 5 external clients as stipulated by the department's objectives/targets in the PC. The internal clients' populations were some major departments in the hospital. The external clients' populations were some major and some minor suppliers. Stratified random sampling technique was to obtain a representative sample among the members of department's staff. Selective or deliberate sampling technique was to obtain primary data from suppliers and the internal departments because the selected major and minor suppliers and internal departments accurately and adequately represented the suppliers and internal department's population. Questionnaires and interviews were used as the instruments of data collection.

4. Findings

Majority of the suppliers understand what PC is all about but are not engaged in setting its objectives And targets, yet the SCD's PC is intended to serve them better: meaning that the department has not captured well the desires of their clients in the PC. Generally, handling of clients, many queries remain unanswered for a long time or they are ignored all together.

It appears that among the suppliers, most of them are either not sure of any efforts by the SCD towards expediting their payments: mainly because the end product of such efforts is a cheque which is issue by finance department. Others think the department is not always thorough and prompt. On the side of minor suppliers, the opinion on the same is divided evenly.

There is disconnecting mainly between the SCD and Finance department concerning the prioritization of payment to suppliers. Finance mostly concentrate on the age of the debts as the main criteria while the SCD blends the age with the purchase terms given by the strategic/monopolistic suppliers: particularly for critical items and the urgency factor. On courtesy and politeness, there seem to be no improvement at all during the past four years because the diverse feeling among both the international and external clients is even. The demeanor of the SCD staff sometimes is repulsive and cold.

Time spent by clients waiting to be served in the SCD has not significantly reduced according to them and the end result for waiting is sometimes unsatisfactory. The SCD has scored significantly well on the quality of items they have been supplying to their clients in the last four years, this is mainly because of the intensified market research and intelligence efforts.

The appraisal and reward system in MTRH/SCD are totally unjust according to almost the entire staff. Most of them have pointed at impartiality, favoritism, nepotism, malice and unprofessionalism in the way the appraisal and reward processes are done.

It seems MTRH's/SCD's leadership engages the SCD'S staff adequately in the PC's preparation process. Objectives and individuals targets are mutually agreed, monitored and reviewed by the staff and management. According to the SCD staff, the working condition is generally not conducive for them to achieve the individual targets. There are no sufficient enabling tools like computers, phones and air time, internet connectivity, desks, chairs and ample office space to serve their clients well.

5. Recommendations

All the essential suppliers should be adequately engaged from the 'A to Z' of setting the PC's objectives and targets. This should be all inclusive, open, concessional and SMART. There is need for awareness and training about customer care, public relation and communication skills among the department's staff to enable them to handle the clients' issues on satisfactory levels. The SCD should be thorough and prompt in processing the payment documentation and always update the suppliers on the progress; including the need to amend or send the missing documents. E-communication is highly recommended to increase efficiency.

SCD AND Finance department should always be consulting on suppliers' relationship so as to mutually agree on the principles and practices of handling suppliers' financial matters. The social and emotional welfare of the staff should be improved in addition to them being trained on soft and/or social skills to exhibit politeness and courtesy. The SCD's staff should adhere to the time lines stipulated in the department's service charter and the quality manual and even strive to shorten the service time. The clients should be made aware of all the requirements necessary for good and fruitful service for them to prepare appropriately.

On the good quality of items supplied, this trend can be made improved through enhanced mutually beneficial MTRH-suppliers relationship. This can be done through timely and relevant exchange of information concerning technological trends, product research & development, market research and intelligence, framework contracting among other measures. The appraisal and reward systems in MTRH need total overhaul. The appraisal form and procedures should be mutually and clearly agreed between the assessors and be standardized for uniformity. The procedure and the reward process should be consultative, transparent and objective.

On the achievement of the set objectives and targets, the SCD should set higher objectives and more challenging targets for continuous improvement. The government/hospital should avail sufficient financial resources to the SCD to provide enabling environment for the staff to support the PC by achieving their allotted targets. Without matching the required resources with the targets set, achievement of the PC's goals shall be impaired.

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