PERFORMANCE CONTRACTING STRATEGY, PUBLIC SECTOR REFORMS AND PERFORMANCE OF PUBLIC INSTITUTIONS IN THE TRANSPORT SECTOR "IN KENYA"

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ABSTRACT
This study seeks to examine the relationship between performance contracting strategy, public sector reforms and performance of public institutions in the transport sector in Kenya. This study uses the institutional theory. The main objective of the study was to examine the effects of performance contracting strategy, public sector reforms and the performance of institutions in the transport sector in Kenya. The population of interest in this study was all public institutions in the transport sector in Kenya. The study surveyed public sector institutions in the transport sector and collected data through personal interviews. The study used SEM analysis to show the correlation between performance contracting strategy and public sector reforms and how they impact on institutions performance. The study established that performance contracting is a vehicle to achieve reform in the new public management and its use as a strategy in the transport sector in Kenya, leading to efficiency gains, improved service delivery and competitiveness.

Key words: Performance contracting strategy, public sector reforms, public institutions, transport sector, performance.

1. INTRODUCTION

The main development goal for any country is to achieve broad-based, sustainable improvement in the standards of the quality of life for its citizens. The Public sector plays an indispensable role in the effective delivery of public services that are critical to the functioning of a state economy. When the delivery of services becomes ineffective, it affects the quality of life of the people and nation's development process (Kobia and Mohammed, 2006).

Performance contracting strategy originated from the perception that the performance of the Public Sector has been consistently falling below the expectations of the Public. Performance Contracting is part of broader Public sector reforms aimed at improving efficiency and effectiveness in the management of Public service (Kobia, 2006). The problems that have inhibited the performance of government agencies are largely common and include excessive controls, multiplicity of principles, frequent political interference, poor management and outright mismanagement (Results Based Management Guide, 2005). Performance contracting is among the public sector reforms being adopted to address these challenges.

1.1 Transport sector in Kenya

The transport sector in Kenya encompasses a transport system comprising of road, rail, and air and maritime. The sector is crucial in the promotion of socio-economic activities and development since an efficient and effective, transport system is a mainspring for rapid and sustained development in terms of national, regional and international integration, trade facilitation, poverty reduction and improvement of welfare of the citizen.

The mandate of the Ministry of Transport is to formulate transport policies to guide in the development of the sector, develop a regulatory framework for the transport sector to ensure harmony and compliance with international standards and supervision of transport service delivery. In terms of Policy formulation, the Ministry develops reviews and oversees implementation of policies in the transport sector. The Ministry further ensures development of a regulatory framework, that the Transport Licensing Board (TLB), the Kenya Civil Aviation Authority (KCAA), the Kenya Maritime Authority (KMA) and the Kenya Railway Corporation (KRC) enforces.

The Ministry also oversees the delivery of services by institutions in the sector through relevant legislation, policy direction and performance monitoring and evaluation. The following technical departments based at the Ministry Headquarters perform this oversight role; Air Accident Investigation, Air Transport, Shipping and Maritime, Railways, Road Transport, Engineering Services, Central Planning and Project Monitoring.

2. LITERATURE REVIEW

This section reviews both theoretical and empirical literature on performance contracting.

2.1 Performance contracting

Ascher, (1996), defined performance contract as a freely negotiated agreement between the Government and a State Corporation. It is an agreement between two parties that clearly specifies mutual performance obligations, intentions and responsibilities. A Performance Contract is a management tool for measuring performance that establishes operational and management autonomy between Government and public agencies; reduces quantity controls and enhances the quality service and revolutionizes the style of public sector management. It also measures performance and enables recognition and reward of good performance and sanctions bad performance.

According to the Procurement Executives' Association (1999), one of the most important features of applications of performance management concept is that it is dynamic, that is, it allows for enhancements over time in light of changing circumstances. The process of performance management develops participation, awareness, a decentralized decision-making process, and responsibility for achieving the goals which have been formulated. As a consequence, there must be a goal-achievement analysis, in which the organization draws conclusions about what it is not doing so well, and what can be improved. Thus, one of the main purposes of the performance management concept is to develop a learning organization culture where such systems may be seen as enablers of a circle of learning. The learning organization is one of the many management concepts used in recent management literature. De Bruijn, (2002) describes a learning organization as: "a particular type of organization whose structures and processes are aimed at enhancing learning." In other words, a learning organization improves an organization's ability to react to, adapt to, and capitalize on changes in its internal and external situations. The main concern has been whether Government institutions have delivered what was expected of them. This has resulted in the concerted efforts to reduce the quantity of Government while increasing the quality of Government (Kueng, 2000).

Kueng, (2000), observes that performance contracting assists to create market-like conditions by establishing performance goals and the consequential outcome is to improve delivery by public institutions to the public by ensuring that top-level managers are accountable for results. It institutionalizes performance oriented culture in the public service, measures and evaluates the organizations' performance, helps in reducing or eliminating of reliance on the Exchequer funding for Government agencies, which should be generating revenues or make profits as well as enabling enhanced performance of previously loss making public institutions. Contract performance also creates a result-oriented culture in the public sector as well as creating accountability and possible transparency in public sector.

Implementation of the Process of Performance Contracting in Kenya began in 2004 in state corporations (GOK, 2007). Performance contracting is supposed to enhance job satisfaction for the employees with the hope that their satisfaction would lead to improved job performance. The improved job performance should in turn lead to tangible and improved financial performance. The Economic recovery strategy for wealth and employment creation (2003-2007) outlines the Government's commitment to improve performance, corporate Governance and management in the public service through the introduction of Performance Contracts. The policy paper opens with a bold statement that the public sector has become a bottleneck to the overall development of Kenya.

The primary role of any Government is to maximize on the welfare of its citizens and its development goal is to achieve broad based, sustainable improvement in the standards of the quality of life for its citizens. The public service plays an indispensable role in the effective delivery of public services that are critical to the functioning of a state economy. When the delivery of public services is constrained or becomes ineffective, it affects the quality of life of the people and the nation's development agenda. Public institutions therefore have to continuously strive to improve on their service delivery process by adopting management programmes such as the performance contracting (GOK, 2007).

2.2 Origin of performance Contracting

Performance contracts originated from the perceptions that the performance of the public sector has been consistently falling below the expectations of the public. This has been associated with excessive controls, multiplicity of principles, frequent political interference, poor management and outright mismanagement (RBM guide, 2005). While several approaches have been used to address these challenges it is hoped that PC will be an effective tool for managing productivity. There is therefore need to determine the impact of PCs has had on service delivery.

The initiatives to adopt Performance Contracts in public institutions have been driven by the changes in political environment in terms of securing better value for money in public services, encouraging greater openness and accountability, and for service improvements in dealing with the general public as consumers (Brown, 1996).

The objectives of performance contracts in the civil service include: improving service delivery to the public by ensuring that top-level managers are accountable for results, and in turn hold those below them accountable, reversing the decline in efficiency and ensuring that resources are focused on attainment of the key national policy priorities of the Government; institutionalizing performance oriented culture in the civil service through introduction of an objective performance appraisal system; measuring and evaluating performance; linking reward to measurable performance and strengthening and clarifying the obligations required of the Government and its employees in order to achieve agreed targets.

2.3 Evolution of performance contracting

Performance contracting strategy has used widely initially in the private sector and has gained increasing popularity in the public sector in the recent past. Starting in France in the 1970's, performance contracting has been used in about 30 developing countries in the last fifteen years (Lienart, 2003). In Asia, the Performance Contract concept has been used in Bangladesh, China, India, Korea, Pakistan and Sri Lanka. In Africa, PCs have been used in selected enterprises in Kenya, Benin, Burundi, Cameroon, Cape Verde, Congo, Cote d'Ivoire, Gabon, the Gambia, Ghana, Guinea, Madagascar, Mali, Mauritania, Morocco, Niger, Senegal, Togo, Tunisia and Zaire. In Latin America, they have been used at different times in Argentina, Brazil, Bolivia, Chile, Colombia, Mexico, Uruguay and Venezuela. Others include Malaysia, United Kingdom, U.S.A, Canada, Denmark and Finland among others (Lienart, 2003).

In the global context, relative performance evaluation has been an aspect of contractual relations. Even when it is not explicitly written into a contract, relative performance evaluation (RPE) may be part of the implicit agreements that guide long-term remuneration. It has been argued that upward revision of Chief Executive Officers' salaries tends to be positively related to firm's performance, but negatively related to industry or market performance as a whole. There has been some positive correlation between the relative performance of funds (as indicated by their rank in published league tables) and inflow of new investment funds.

It has been argued that relative performance evaluation (RPE) is valuable if agents face some common uncertainty. To be precise, RPE is useful if other agent's performance reveals information about an agent's unobservable choices that cannot be inferred from his own measured performance. Of course, RPE-based contracts do not always work in the interest of the principals. Within organizations, basing reward on relative performance creates incentives to sabotage the measured performance of co-workers, to collude with co-workers, or to self-select into a pool of low ability workers. Dye (1992) pointed out such contracts may distort choice by persuading manager to select projects where their relative talent, rather than their absolute talent, is the greatest.

Aggarwal and Samwick (1999) posits that when firms compete in product markets, use of high-powered incentives may result in excessive competition. The need to soften the intensity of competition may induce principal to dilute incentives even when the net benefit of RPE contracts is positive. This may be difficult to implement, say, if individual performance as opposed to team performance is hard to measure. Grinblatt and Titman (1989) and Das and Sundaram (2002) focus on the differences between symmetric, fulcrum contracts (which penalize under-performance just as they reward out-performance), and asymmetric, incentive contracts (which reward out-performance without penalizing under-performance). Brennan (1993) provides an early attempt to study the general equilibrium implications of contracts that reward managers according to their performance relative to a benchmark portfolio.

Public enterprises in Africa are suffering financially and many are seeking financial assistance. Their problems stem from unclear and conflicting objectives, and a lack of autonomy and accountability (Kobia and Mohammed, 2006). The results of performance contracting have been mixed. In some countries, there has been a general and sustained improvement in public enterprise, while in other countries some Public enterprises have not responded or have been prevented by government policies from responding. In implementing PCs, the common issues that were being addressed include performance improvement so as to deliver quality and timely services to the citizen, improve productivity in order to maximize shareholders wealth, reduce or eliminate reliance on the exchequer, instill a sense of accountability and transparency in service delivery and the utilization of resources and give autonomy to government agencies without being subjected to the bureaucracies and unnecessary procedures.

The evolution of contract plans in Swaziland can be traced back to the early 1990's a period that witnessed the promulgation of the Public Enterprise (Control and Monitoring) Act of 1989 (Musa, 2001). The latter sought to establish viable control mechanisms for Swaziland's parastatal sector amid a national outcry that public enterprises were continuing, unabated, to be a financial as well as an administrative burden on the government (Musa, 2001). However, the performance agreement of the early 1990's failed to achieve its stated objective, which is to improve the performance of the Public enterprises. This was because of widespread use of consultants in the formulation of contract plans, including the determination mechanisms for their monitoring and evaluation; Public enterprise management did not develop the necessary sense of ownership and commitment to the success of the enterprise contracts. Lessons of experience with regard to the use of outside consultants, expert or advisors, especially from developed countries, in the formulation of development plans, have shown that while they may be knowledgeable about certain issues and areas that are generic to their field of specialization, they often lack an intimate knowledge of the unique socio-political and economic circumstances confronting individual countries, especially those of the third world (Musa, 2001)

2.4 Performance contracting in Kenya

In Kenya, performance contract adoption commenced with the establishment of a Performance Contract Steering Committee in August 2003, and the issue of legal Notice No.93., The State Corporations Performance Regulations, (2004). According to the State Corporations Performance Contracting Regulations (2004), performance is defined as evaluated results of achievement of agreed performance targets.

The public sector in Kenya for example is faced with the challenge of poor and declining performance, which inhibits realization of sustainable economic growth. The Public sector had consistently fallen below expectations due to: Excessive regulations and controls; Frequent political interference; Poor leadership and management; Outright mismanagement (Kenya Railways, Kenya Meat Commission); Bloated staff establishments; Multiplicity of principals and non-performing employees. In addition to regressing economic growth, the declining in Public Service has resulted to poor performance, poor service delivery, degeneration of infrastructure and severe brain drain (GOK, 2007).

Choke (2006) studied the perceived link between strategic planning and performance contracting in state corporations in Kenya and found that most managers perceive PCs as a management tool useful in achieving set targets. Kiboi (2006) on the other hand studied the management perception of performance contracting in state corporations and came to the same conclusion as Choke. Korir (2005) also studied the impact of performance contracting at the East African Portland Cement. This study found that in the presence of PCs, there is a corresponding improvement in performance.

Opondo (2004) surveyed Strategic Planning and Performance of Public Corporations in Kenya, he concluded that the use of performance contracts is a process of performance management that leads to effective and efficient management practices, ensures improved staff performance, increased autonomy, and accelerated service delivery. Mburugu (2005) established that many countries have had success in improving the performance of their own public enterprises local authorities inclusive, by designing performance contracts for them. He concluded that efficiency gains for local authorities that had fully embraced performance contracts initially exceeded councils that delayed in adopting performance contracts initiative. He further concluded performance contracts contribute to efficiency and quality improvements.

2.5 Public Sector Reforms in Kenya

According to Schultz (1998), the public service can be defined as a body of government officials employed in civil occupations that are neither political nor judicial. Well-ordered societies usually recruit and promote officials on the basis of a merit-and-seniority system, which may include examinations; elsewhere, corruption and patronage are more important factors. They often serve as neutral advisers to elected officials and political appointees. The officials "though not responsible for making policy" they are charged with its execution.

The Reform Agenda was enhanced by the Government when the Result Based Management (RBM) approach was introduced. This was to ensure that efficient management of the Public service is achieved and acquire the driving force for the broader Public Service, reforms are being undertaken to improve performance and service delivery. The reform strategies the government has adopted since 2003 in order to improve service delivery in the public service include: Rapid Results Approach, Contracting, Citizen, Transformative Leadership, Values & Ethics, Institutional Capacity Building (GOK, 2007).

Since the 1990's the Government of Kenya has been implementing Civil Service Reform Programs with the aim of reducing the Government wage bill streamlining and rationalizing Government ministries and departments, strengthening personnel and payroll controls and building capacity (GOK, 2007). According to the Government Sessional papers number one of 1986, 1992, and 1994 the Government wished to refocus the civil service reforms to increase the pace of implementation in order to achieve better control of the wage bill, improve the balance of spending between operations and maintenance to promote improvement to service delivery. These reforms have represented significant policy shifts in the areas of staffing, Civil Service organization, pay and benefits, personnel management and training financial performance and management. Specific policy issues raised under each reform programme include: cutback management approach entailing cuts in staff through retrenchment and natural attrition, capacity building, service orientation and result based performance (GOK, 2007).

A number of public service reforms have been initiated in the very recent aiming at placing citizen satisfaction at the heart of policy making and service delivery (GOK, 2007). Efforts under the Economic Recovery Strategy (ERS) of improving public service delivery by strengthening the link between planning, budgeting and implementation; improvement on performance management "as well as strategic management" have been cited as some of the recent public service improvement initiatives(GOK, 2007). Increasingly the Kenyan Government through its path to the realization of the nations' development agenda as enshrined in the First Medium Term Plan (2008-2012) and Vision 2030 (GOK, 2007) realizes that an efficient, motivated and well trained public service is one of the major foundations pillar (GOK, 2007). The government has continued to intensify efforts to bring about attitudinal change in public service, service delivery orientation, skills inventory assessments, performance management, computerization of service delivery, as well as training and development (GOK, 2007).

2.6 Theoretical Foundation

This paper is anchored on Institutional theory. This theory focuses on the rules and procedures established by organizations to maintain themselves and guide the behavior of staff and other stake holders. According Hardina, Middleton, Montana and Simpson, (2007), institutions consist regulative structures and activities that provide stability and meaning to social behavior. Rules can be derived from legislation, public opinions and legal decisions in the courts and are often used to regulate the behavior of the organization staff and others who interact with the institution. In some organizations, following the rules becomes more important than the actual delivery of services. Institutional theorists assert that the institutional environment can strongly influence the development of formal structures in an organization.

However, these formal structures of legitimacy can reduce efficiency and hinder the organization's competitive position in their technical environment. To reduce this negative effect, organizations often will decouple their technical core from these legitimizing structures (Hardina et al, 2007). Organizations will minimize or ceremonies evaluation and neglect program implementation to maintain external (and internal) confidence in formal structures while reducing their efficiency impact. Scott (2001) observed that despite the level of conformity presented by the Institutional theory, the theory is quite promising because it bridges the gap between societal views and organization's actions. Management is more aware of social views and opinions and more willing to incorporate societal norms and expectations, rules, regulations, and requirements in its daily operations of an organization. Nonetheless, there are a few disadvantages associated with the theory. One disadvantage to the institutional theory is that it places a tremendous amount of constraints on management to conform to the norms, rules, or requirements.

According to (Kobia and Mohammed, 2006) performance contracts have been acclaimed as an effective and promising means of improving the performance of public enterprises as. The theory asserts that the institutional environment strongly influences the performance of organizations in the public sector.

2.7 Emerging Issues

The modern world market dynamics and increasing competition make it imperative for the public sector to continuously improve their performance to compete favorably not only with their neighbors but increasingly with the rest of the world. Governments must therefore adopt strategies that will make them more efficient and effective to meet their obligations to the citizenry and international community and to enable them achieve competitive advantage and superior economic development performance.

Performance contracting must therefore be further integrated within the wider strategic management activities to ensure it is part and parcel of the organizational long-term objectives and goals to enhance superior performance in the public sector.

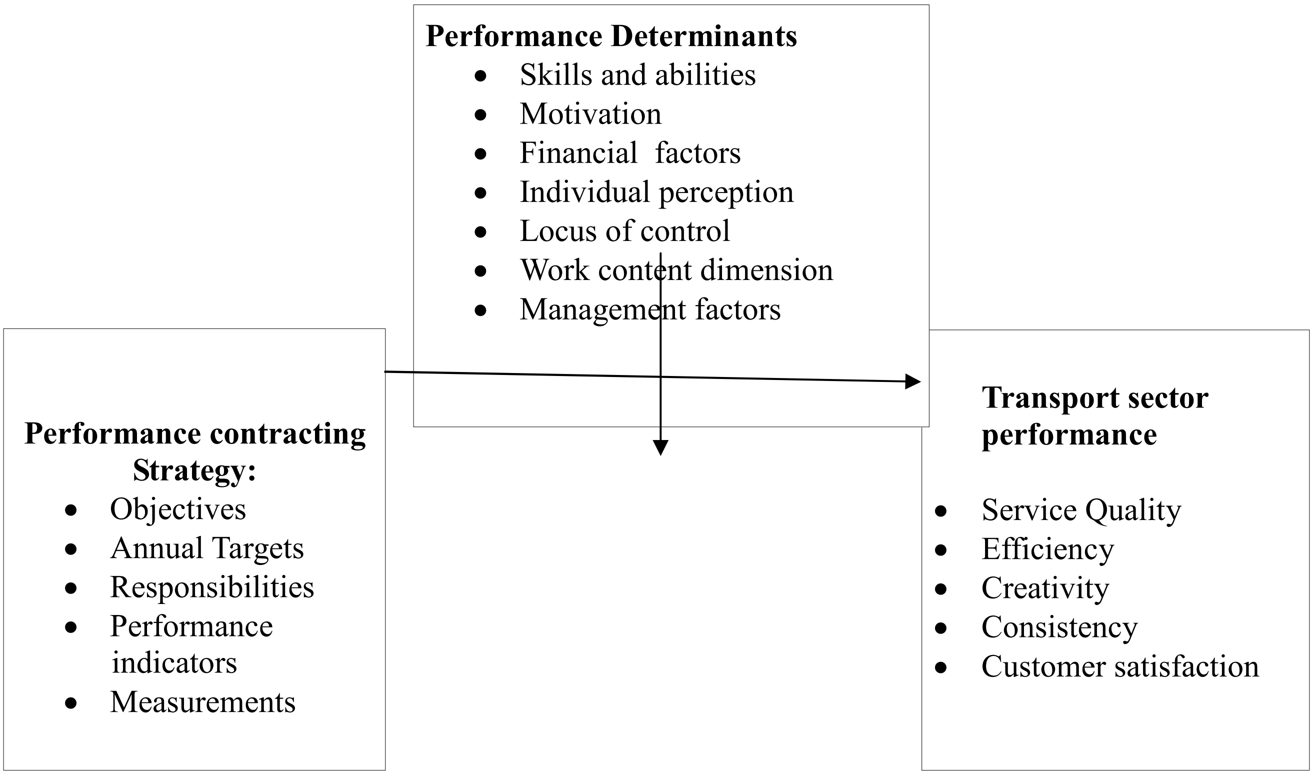
2.8 Conceptual Framework

Figure.1 below demonstrates how performance contracting strategy has led to strategic changes within public institutions and how such changes impact on the performance of the organizations

Empirical findings show that there is a strong positive relationship between performance contracting strategy and improved performance of public institutions in the transport sector. This implies that public institutions apply performance contracting strategy to be more productive, effective and competitive.

Performance contracting improves public institutions' service quality, efficiency, consistency and employee creativity which lead to improved overall organizational performance.

Figure 1: Performance contracting strategy in transport sector model



3. CONCLUSION

The study established that performance contracting has a positive relationship with improved productivity in the public sector. Empirical evidence shows that Governments all over the world are viewing performance contracting as a useful tool 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 has also been established that performance management concept is dynamic and allows for enhancements over time in light of changing circumstances.

Public institutions therefore can improve on their service delivery process and enhance their competitiveness by adopting performance contracting in their management programmes.

It has also been established that questions still linger whether performance contracting as a strategy is just but a management fad or whether it has a long term impact in enhancing performance and competitiveness. It is noted that public service reforms have entailed multiple performance improvement initiatives including rapid results initiative, total quality management and results based management. The gains being recorded in the public sector performance in Kenya could therefore be attributable to the whole milieu of these performance improvement initiative though to varying degrees for each. In-depth studies are recommended to further analyze the marginal impact of performance contracting on service delivery and performance in the public sector.

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