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Can Performance Contacting Improve an Organizational Performance? A Review of Influence of Performance Contracting on Organizational Performance

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Abstract

Most organization worldwide intend to be good performers in terms of goal achievement. They lay a number of strategies to boost their productivity and some of these strategies touch on the mode of employment or change of human resource to become result centered. As was noted by previous scholars such as Mariu et al, [1] & Okech [2], the Kenyan public service faces management challenges and experience recurrent changes meant to improve delivery of services to the citizens and among those changes the adoption of performance contracting is preferred. Similarly, it has been noted that due to recognition of the fact that the goals of the public service were unclear since it had several functions with numerous objectives to realize of which some were far from the core mandate, introduction of performance contracting was perceived as a blessing to rest this challenge. As was noted by the previous scholars that "what gets measured gets done," adoption of performance contracting by private sector has been perceived to be fruitful. The study then sought to examine the influence of performance contracting on organizational performance. Relevant literature was reviewed to help establish if performance contracting really affect organizational performance based on the previous scholarly studies and reports. The documents analyzed revealed that in deed performance contracting boosts organizational performance.

Keywords: Performance Contracting; Influence; Organization; Performance; Organization; Productivity; Strategy; Service; Scholar; Management; Challenges

Abbreviations: GPRA: Government Performance and Results Act; UK: United Kingdom; PC: Performance contract; SAP: Structural Adjustment Program; FE: Freezing of Employment; RP: Retrenchment Program; VER: Voluntary Early Retirement; IPPD: Integrated Payroll and Personnel Database

Introduction

Performance contracting is a term that has been defined differently by various scholars. Kumar [3] defined performance contracting as an array of instruments for management used in the definition of responsibilities and prospects among event/parties to accomplish common results. Performance contracting is also considered as a management tool for measuring the targets of performance between an employer which could be the government and the managers of state corporations as the management of the agency [4].

Simiyu [5] defined performance contracting as a performance agreement which is freely negotiated between a government acting as the owner of a public agency and the management of the agency. Draft [6] asserted that performance contract must clearly stipulate the shared obligation between the two parties involved and the agencies themselves. Further, he noted that it is a branch of management control system science whose definition has been subjected to discussions by various scholars and practitioners in the field of human resource. According to Omar, the origin of performance contract system can be traced back to 1960s where the concept emanated in France. This is specifically after the publication Nora Report which addressed the issue reform of enterprises which were of state-owned in France. He further contended that currently, almost all OECD have adopted and are applying the system in their public sectors. Similarly, he posited that the system was embraced in New Zealand where it was considered one of the country's reforms in that pioneered the public sector. On a similar note, Omar established that performance contracting gained momentum and legitimacy at the time the government of the United States introduced it in the Government Performance and Results Act (GPRA) in the year 1993.

Literature Review

OECD [7] acknowledged the introduction of performance contract by Margaret Thatcher in the United Kingdom (UK) in the establishment of step agencies. It further outlined that the system has been adopted and being used in all British government agencies. According to OECD study (1997) performance contracting has developed with greatly in Pakistan and Korea and even India. Albeity [8] observed that Kenya has adopted performance contracting system among other developing nations in Africa such as Ghana, Nigeria and Gambia. According to Lienert [9], many African countries' public services experience many challenges such as shortage of man power as key competencies, shortage of financial and material logistics, inappropriate mindsets and socio-psychological dispositions which constrain their performance capacities. Similarly, he noted that the local authorities have continued to be bedeviled by gradual deterioration of accountability and ethics in terms of effective service delivery to the people.

Ndung'u [10] as cited by Muriu et al, [1] stipulated that the prospects of commitment for shared achievement of the member states of the East African Community pertaining performance contract of 2008/2009 was to incorporate execution of a strategic plan of the year (2007-2012). This was intended for the development of proper work plans in terms of inclusivity of the targets of performance. Maguigui et al, [11] posited that several government initiatives have been undertaken in Kenya since 2002. They contended that these initiatives were meant at improving delivery of services. Further, they noted that streamlining of the procurement efforts in the government in order to conserve resources was ensured through enactment of the 2005 Act (Public Procurement and Disposal Act). Similarly, they observed that the performance contracting system in in the Kenyan government came into being in the 2004 and from there, challenges and success have been noted by the system [11].

According to Okech [2], the major aim of performance contracting is to public sector service delivery improvement. He further noted that the contracting efforts have been applied in various places including Unites States and mixed results have been achieved. Maguigui et al, [11] asserted that performance contracting has recorded mixed outcomes especially in Kenya despite the short period it has lasted in Kenya since its adoption. They contended that significant improvement in performance has been registered by some sectors whereas others are yet to recognize the impacts. The major reason for institutions to adopt the system differently according to them was lack of universal acceptability. They articulated that most institutions in Kenya adopted the performance contracting system in 2005/2006 with some facing resistance.

Trivedi [12] contended that performance contract (PC) has been perceived as one of the effective means that brings hope in both government and public enterprises in terms of performance improvement. In his view, performance contracting is an agreement that involves the public agency and the government with the major aim of setting targets for performance measurements, establishing an agency's general goals and providing incentives with a purpose of achieving the target. Trivedi asserted that PC may comprise a range of mechanisms which are inducement-based meant to control the outcomes of public agencies' rather than process.

According to Okech [2], one of the global public administration concerns that improves productivity lies in the efficiency in public services provision. He argued that many governments have been forced to initiate and implement institutionalized public sector reforms in order to meet the demand for quality services from the tax payers and other stakeholders. Equally he noted that these sector reforms are aimed at harnessing effectiveness, efficiency and ethical delivery of services as was asserted by Kobia & Akaranga [13,14]. In his view, the reforms emphasize outputs and results rather than inputs. Similarly, he stated that the reforms aim at improving target setting and follow-up through performance contracting.

In view of Kobia & Mohammed [14], performance management links the individual employee targets with the organization's objectives and this constitutes its main feature. They further noted that in performance contract, quantifiable targets are that major determinant upon which employees get appraised to enhance management that is result-based. Opiyo [15] emphasized that a sense of transparency, purpose, accountability and conscience has been imparted and instilled in employees of the public sector by PC management system. Equally, he observed that performance contract highlights key areas of concern that includes performance level that is expected in agreed target achievement and ways of measuring and epitomizing performance. He contended that in everything that is done must also get measured.

Based on plummet performance in service delivery in Kenya, the government adopted reform and restructuring agenda of the state public services in the early 1990s as a way to improve on service delivery [1]. The major aim of the reforms was to adopt results centered on performance evaluation [2]. According to Okech [2], the government in a policy document dubbed "Strategy for Performance Improvement in the Public Service" initiated various reforms that were intended for service delivery revamping in public sector [4]. These included benchmarking, surveys of service delivery, development of service charters as a means to embrace management that is based on results. These were aimed at shaping institution and operationalizing activities for the accomplishment of agreed set of outcomes, while re-orienting the goals of the human resource towards efficiency and responsiveness to clients' demand and requirement.

According to Kobia, et al, [14], the PC concept was adopted purposefully to instill an attitude that is positive and transform behavior patterns for the improvement of work ethics to embrace change on how issues were tackled initially in the entire public service delivery. Muriu et al, [1] asserted that

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the major expectation from this system was to restore the lost international stakeholders and citizens' faith in government as was also posited by Muthaura [16]. This study was informed by such arguments that performance contracting can be used to improve organizational performance.

As was noted by the GoK [17], it is almost coming out as a global consensus that performance contracting effectively improves performance in both public enterprises and various department of the government. This was affirmed by Nganyi et al, [18] who posited that France, Malaysia, Pakistan, India and South Korea have recorded success in implementation of performance contracting. In their view, PC has been employed or adopted by various institutions including government parastatals. As was stipulated by Nganyi et al, [18], the public service in Kenya has not been result based but rather emphasized on compliance hence largely deteriorated due to this kind of system of management. According to Prajapati, the productivity in the Kenyan civil service together with service delivery have been identified to be poor. This has impacted negatively on the national budget since it is strained while the results equivalent to these are not realized.

Further, GoK [4] asserted that assessing the performance of an individual and government was implicated by initial lack of clear objectives that are well formulated. Similarly, Muriu et al, [1] acknowledged a series of public sector reforms such as the early 1990s Structural Adjustment Program, (SAP) Freezing of Employment (FE), the mid 1990s that included Retrenchment Program (RP) and Voluntary Early Retirement (VER) and in the early 2000s where Salary Review and Strategies and Integrated Payroll and Personnel Database (IPPD) were introduced. These were meant to help resolve graft cases in public service so as to improve delivery of services and ensure effective resource utilization. Equally, Odor observed a major stride made by the government in 2005 concerning introduction of the paradigm of PC while managing public service. Despite these reforms for adoption of performance contracting as means of improving performance, some institutions resisted as was noted by Maguigui et al. [11].

Theoretical Framework

This study was built on the following theories,

The agency theory

Agency Theory was established by Adolf Augustus Berlet and Gardiner Colt. The theory was developed from an economics branch which scrutinizes individuals with varied interests over given assets that normally lead to conflicts of interest. According to Eisenhardt, the conflict from which this theory is derived encompasses managers and shareholders who also link with the bond holders. The theory established a procedure where the principal party controls the work undertaken by the agent as was asserted by Eisenhardt. In this theory, it is contended that two problems i.e. moral hazard and adverse selection emanate from uncertainty and the incompleteness of information. It emphasizes on the difficulty and impossibility in the principal to establish whether there is accurate representation by the agent in his ability to work in adverse selection whereas in moral hazard, it remains unclear for the principal to determine if the agent maximizes his efforts at work. It therefore argued that the adoption the PCs helped to dispel worries of such kind.

Jensen and Mackling posited that in two problems mentioned above, deputes the initial assumption of perceiving fixed wage contracts as the ideal system of organizing the linkages that lie amid the agents and principals. They viewed fixed wage as an agent's incentive which he can evade in an unchanging condition of wage regardless of the agent's work quality or efforts. Further elaborations indicated that efficiency for fixed wages replacement with compensation that are based on the outstanding clamancy on the firm's profit increases with the availability of agent's incentive to be shirked. Jensen recorded ownership right provision normally lowers agents' adverse selection incentive together with moral hazard in that it creates dependency where compensation relies on their performance.

For the purpose of an agent's performance measuring and evaluation together with the environmental conditions that impede performance, the theory advocates for proper monitoring systems to be put in place. Other area stated that such systems help include: arrangement of bonding where the agent gives an assurance of acting in accordance and adhering with the interests of the principals as was established by Verhulst or where limitations are set on the power of the managers in making decision, though contractual. Monitoring systems also help in checking accountabilities in incentives that are financial. Similarly, in such cases, the agent's performance is linked to reward by such incentives. This in turn leads to turn over of risk from the principal to the agent. It is believed that if all that are provided by this theory are put into consideration, service delivery, production and performance in companies would improve.

V.H. vroom and expectancy theories

The basis of this theory is that motivated behavior is a product of two key variables the valence of an outcome for the individual and the expectancy that given acts are tracked by a foreseeable consequence (Vroom, 1964). The theory focused on individual behavior in the work place. Vroom contended that much of the observed behavior would be motivated. In his opinion, it was the result of preferences among possible outcomes and expectations concerning the consequences of actions. Essential elements of his ideas have been referred to as "expectancy theory". This theory is relevant this study because since it shows the connection between behavior and service delivery, productivity and performance. It has always been perceived that employees' behavior affect service delivery

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as has been contended in the theory. This was also asserted by Kobia & Mohammed [14] who postulated that ability of employees to predict their outcome can make them perform better because they will be motivated to work harder in order to achieve the anticipated goals.

The complexity theory

This theory also contributes to the development of the study in that growing complexity in managerial take-up is evidenced as a framework that informs some practices of the organizations. This theory also concerns systems change in complexity and behavior over time. It argues that systems are dynamic and capable of changing overtime. Predictability of behavior of these systems remains the major concern. According to Kauffman, the changes realized sometimes bring stable or unstable behavior leading to "chaos". He postulated that chaotic behavior as referred to in in this case implies the systems which display behavior and have certain regularities but defies prediction. In an organizational management, complexity theory advocates for a well-managed organization presided by a CEO who controls a unified management crew with a strategic or vision determined to be reinforced by common values. He observed that an organization should be guided by its competencies and core business which are built upon its strengths and be able to adjust to market environment and be focused on the bottom line.

Stacey recorded that complexity theory provides what the management should do in order to perform. She noted that the organization's management should be able to resolve daily problems in order to realize the objectives established as this helps realize a performance which is cost-effective. Further she posited that it should employ an analytical process which is logical and involves analyzing data, setting goals, option evaluation against goals, making a choice that is rational and carrying out implementation through the hierarchy and monitoring. According to Haunt, an obligation should be retained by the leaders of organizations so as to help in formulating the company's guiding vision. Similarly, he contended that the leaders themselves should show their effectiveness in leadership and inspire strong beliefs and values of the organization and also offer opportunities for communication that is open. Similarly, he contended that it should be clear to the managers to discern law and accident interact and knowing the ways of protecting the system by being flexible, effective and efficient in handling chaos. He emphasized that an organization should be left for self-organization.

It was provided in the theory that socio-economic status in not a factor considered by the companies in delivering services citizens. This is because every citizen pays for the service that the company renders. The Government's expectation is to see company's delivery high quality services to the citizen. Performance contracting has made it possible to measure the companies' performance and services they deliver. According to GoK [17] PC is considered one of the tools for management which measures performance against targets negotiated.

Research Methodology

This study employed document analysis. A number of documents such as journals, articles, books, and study reports like the Master and PhD theses were subjected to literature review. Only the ones which were relevant i.e. addressing how performance contracting influence organizational performance were analyzed. The finding of such previous scholarly studies helped to provide the ground for arguing the contributions of performance contracting to the organizations.

Discussion

Okech [2] posited that in a global view, efficiency in the provision of public service aimed at improving productivity has been a concern in the public administration. He further contended that the demand for quality services from the tax payers and other stakeholders has forced many governments to initiate and implement institutionalized public sector reforms that were intended to harness effectiveness, efficiency and ethical delivery of services to the populace as was observed by Akaranga [13]. The attempt which have been made to evaluate PC in many organizations seem to hold similar views on the contents of performance contracts. Most commonly, performance contracts include bonuses for a job well done, less often, salary decrease for poor performance. The increase interest in performance contracts coincides with the demands for greater accountability. Dessler [19] in the year 2003 saw that performance contracts are negotiated agreements as public enterprise owners and the enterprise itself where the responsibilities, obligations and the intentions of the two parties are set out clearly and freely negotiated. GoK [18] advocates the view that performance contracts seem to be a logical solution considering the fact that success has been recorded in similar contracts in the private sector in shifting them from ex anti control to ex post evaluation, thus giving managers the autonomy and incentives to improve efficiency and thereafter holding the managers accountable for results. Shirley & Xu [20] reiterated that performance contracts are now widely used in developing countries where targets that are sensible have been featured by successful contracts.

Performance Contracting and Service Delivery

Most organizations are poorly managed, and it has not been easy for them to achieve the basic needs. For instance, most, companies have faced a tremendous challenge in paying employees' salaries and wages. Submission of statutory deductions has left many retirees in great pain and unable to sustain themselves after retirement. Okech [2] contended that performance contracting positively influences performance, productivity and service delivery. Muriu et al, [1] advocated for effective and competent monitoring agency with vast skills

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and independent auditing together with other qualifications including rewards to boost performance in organizations. They also advocated for commitment by employees in the contract and all the stakeholders and need to match performance targets with the level of the available resources and clear specifications of right obligations of the parties to the contract as was stipulated by Shirley and Xu.

Solomon & Letting [21] acknowledged the usefulness of PCs in both private and public sector. Despite the performance contracting significant improvements noted by various scholars cited in this document, design critical gaps in the system and implementation that hinder realization of the full benefits still emerge. Nganyi et al. [17] recorded that performance contracting works more effectively in competitive working environments which are found in the private sector. They argued that most public sector services do not face any competition from outside. According to them, public sector services are monopolized hence benchmarking is not possible. This limits the ability of recognizing whether you are actually not performing.

Maguigui et al. [11] outlined lack of adequate working resources as one of the reasons that make PCs in the public sector less effective. They contended that resources such as financial resources are hardly enough to enable the desired target and goals to be achieved. Trivedi [22] also noted poor rewarding system in the public sector to be contributing to or negatively affecting PCs. For this reason, the private sector has hire chances of hiring the best brains, hence improving their performance. The goal of hiring is also mentioned to be a limiting factor in performance. An example is given on a government that hires employees only to achieve its employment creation goal.

According to Nganyi et al. [17], uptake of PC has not been harmonious across government. Evidence of 'pockets' of continued non-performance are still witnessed in some organizations where mismatch between delivery of service and targets articulated in the PC exists. Lack of adherence to a PC implementation calendar, inadequate resources (information, finance, technical and human), screening mechanisms remain some of the major challenges in PC. Similarly, lack of appreciation of the formula and evaluation criteria and mechanism to verify reported performance impedes adoption of the PC system.

Conclusion

The perception that performance contracting is result oriented makes it score a management tool for organization. Based on the literature analyzed by different scholars cited in this study, the researcher is convinced that performance contracting normally commits employee to the organizational goals. This is due to the fact that employees get close monitoring and it is based on their performance that they are either retained or promoted by the organizations. Commitment to quality production enhanced by performance contracting in turn improves an organizational performance.

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