

# The Influence of Performance Incentives in Performance Contracting on Service Delivery at the Ministry of Tourism, Kenya

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## Abstract

Performance contracting is aimed at enhancing job satisfaction for the employees with the hope that their satisfaction would lead to improved job performance. Performance contracts originated from the perceptions that the performance of the public sector had consistently been falling below the expectations of the public. Performance incentives are also critical in the link between performance contracting and service delivery. This paper sought to establish the influence of performance incentives in service delivery in the tourism ministry. The study, based on contract theory employed descriptive survey design. The study population constituted 164 employees working in the ministry of tourism. Close ended questionnaires were used to collect data which was then analyzed and presented in form of tables and charts. The study found that performance incentive system does not enhance performance in the ministry of tourism. The study findings may be of interest and may enable the government know whether the reform initiative has positively impacted on the service delivery process and has been accepted or embraced by all the employees. The public service reform secretariat and performance contract steering committee may find the findings useful in deployment of employees in other service state corporations and government agencies yet to adopt the performance contracting.

**Keywords:** Performance Incentives, Influence, Contract Theory, Performance Contracting

## 1. Introduction

There is the perennial problem of the shortage of financial and material logistics that are necessary to supporting 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. The decline has been associated with excessive controls, multiplicity of principles, frequent political interference, poor management and outright mismanagement (RBM guide, 2005).

Previous studies conducted on performance contracting have concentrated on implementation (Choke, 2006) and (Langat, 2006) while another study has tackled the general impact of performance contracting in state corporations (Korir, 2006). However, no study has been done in Kenya so far to correlate performance contracting with employee performance. A knowledge gap therefore exists regarding the effect of performance contracting on performance of employees in state corporations, that is, whether performance contracting increases the performance in key state corporations in Kenya.

### 1.1 Contract theory

Contract theory studies how economic actors can and do construct contractual arrangements, generally in the presence of asymmetric information (Bolton, 2005). Because of its connections with both agency and incentives, contract theory is often categorized within a field known as Law, Management and economics. One prominent application of it is the design of optimal schemes of managerial compensation. The theory is modelled on the fact that managers will be compensated in-line with what they have achieved as signed in the contract. Martimort (2008) argued that contract theory binds the manager with the owner (government) and will be evaluated using the benchmarks laid in the contract.

This theory is adopted in the study since the study is premised on its interpretation. The study argues that performance contracting binds the managers of public sector enterprises to the benchmarks they promise to deliver on behalf of the government. As such, managers of public enterprises will strive to inculcate transparency and accountability as a manager in order to live to the expectations in the contract. This contract is signed by him on behalf of the corporation and the government through its agencies such as the permanent secretary in the respective ministry (Choke, 2006).

A standard practice in the microeconomics of contract theory is to represent under certain numerical utility structure the behaviour of a decision maker, and then find her optimal choices by applying an optimization algorithm. Such a procedure has been used in the contract theory framework to several typical situations, labelled moral hazard, adverse selection and signalling (Martmort, 2008). The spirit of these models lies in finding theoretical ways to motivate agents to take appropriate actions, even under an insurance contract. This tenet of the theory also guides the study as managers of public enterprises try and inculcate a sense of professionalism in their fellow employees since they have signed and agreed to achieve certain benchmarks at the end of a specified period.

The main results achieved through this family of benchmarks may involve: mathematical properties of the utility structure of the principal and the agent, relaxation of assumptions, and variations of the time structure of the contract relationship, among others. It is customary to model people as maximizers of others. This are some of the reasons why the study found this theory appropriate as it guides the study through its interpretation of the tenets of a theory and how it binds with the manager to his/her promised targets.

### *1.2 Performance Incentives*

It is demonstrated through employee empowerment and development, and reward system. Empowerment is defined as sharing with frontline employees three organizational ingredients: performance knowledge that enables employees to understand and contribute to organizational performance, rewards based on the organization performance, and power to make decisions that influence organization's direction and performance (Bowen and Lawler, 1992). Empowerment exists when companies implement practices to distribute power, information, knowledge and rewards throughout the organization. In addition, empowerment produces more satisfied customers and employees (Bowen and Lawler, 1995).

Employee development is a joint effort on the part of an employee and the organization to upgrade the employees' skills and abilities. Employee development programmes make positive contributions to organizational performance. A highly skilled workforce accomplishes more. Retention of employees saves the organization money. One way of retaining employees is to provide opportunities to develop new skills. Development was one of the top three items of what retained employees (Taylor, 2006).

In addition, employee reward programmes are among strategies to build a motivated workforce. Employee rewards is a key to reinforcing desired behaviour and developing new habits. They also build a connection between meeting personal and organization's goals. Various agents including those in the public sector respond to incentives and that incentives can promote effort and performance (Prendergast, 1999).

Employee attitude also influences organizational performance. Attitude is a personal opinion or feeling towards a given subject and attitudes usually lead to specific behaviours. To create a positive impact based on an individual's attitude, one must influence the individual to identify with the desired attitude by creating personal interest and value so that the person is more inclined to correspond with the desired attitude, leading to the desired behaviour. Employee's attitudes and behaviours are usually related in one way or another. Negative perspective of their jobs by employees will lead to non-concern of their job performance, whereas a positive perspective will make the employee take pride in doing the job correctly, become a team player and look for ways to improve the company performance as a whole.

Rewards and recognition are some of ingredients of motivation. They are benefits which are conferred to employees as acknowledgement of superior performance with respect to goals. Rewards for quality efforts appear to have a significantly positive relationship to employee morale. All organizations should be concerned with what should be done to achieve sustained high levels of performance through people. This means giving close attention to how individuals are motivated through such means as incentives, rewards, and importantly the work they do and the organization context within which they carry out that work. If staff is de-motivated in one way or another there will be serious breakdown of service delivery and quality of service negatively affected (Armstrong, 2003).

Xu & Shirley (1998) carried out a comprehensive study of the experience with performance contracts between developing country governments. The study entitled 'Information, Incentives, and Commitment: An Empirical Analysis of Contracts between Government and State Enterprises' found out that signing of performance contracts had improved service delivery to a large extent because the managers were tasked with service delivery in the contracts. As such, everything had to be done in-line with service provision and achievement of benchmarks as outlined in the contract. They found out that public owned enterprises previously at the blink of

collapse were now recovering and playing a crucial role in service provision of the citizenry. However, they didn't have any public ministry in their sample. As such, this study seeks to fill this apparent gap in literature by Ministry of Tourism service delivery standards and performance.

## 2. Methodology

The study employed use of descriptive survey design, Kothari (2004) describe descriptive analysis as that method that involves asking a large group of people questions about a particular issue. Information is obtained from a sample rather than the entire population at one point in time which may range from one day to a few weeks. The descriptive design helped to obtain and describe information on the influence of performance incentives on service delivery.

The target population comprised 164 employees working at the Ministry of Tourism headquarters at top, middle and lower levels of management since they can be in a position to give reliable information on performance contracting.

The sample was drawn from each stratum based on simple random sampling technique. The author used the staff database to generate a list of numbers corresponding to staff name and personal number. A sample size of 115 was drawn from the study population. Data was collected mainly by use of questionnaires. A semi structured questionnaire with closed ended questions was employed.

The author mainly used descriptive statistics to analyze data. These included percentages, mean and standard deviation. The study also used spearman's correlation, a technique for discovering patterns among the variables to determine if an underlying combination of the original variables can summarize the original set. Spearman correlation was used to test the relationship between performance targets and service delivery (Cooper &Schindler, 2006).

## 3. Results and Discussion

### 3.1 Performance Incentives Systems

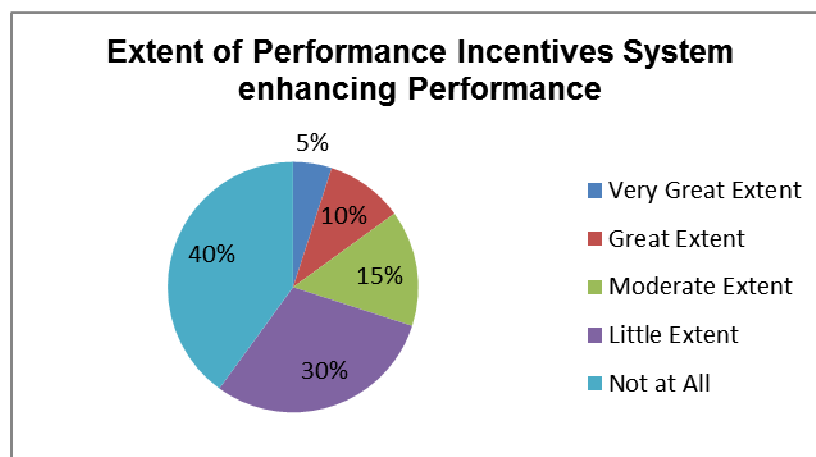


Figure 1. The Extent of Performance Incentives System in Enhancing Performance

The author sought to find out the extent of performance incentives systems on enhancing performance. According to the results in Table 1, the author established that performance incentives had no effect at all on service delivery. Performance incentives are critical in the link between performance contracting and services delivery and it is demonstrated through employee empowerment and development and reward system. Reward programmes are among others, one of the strategies used to build a motivated workforce and promote effort and performance in accordance to Prendergast (1999) and a negative perspective of their jobs by employees will lead to a non-concern of their job performance.

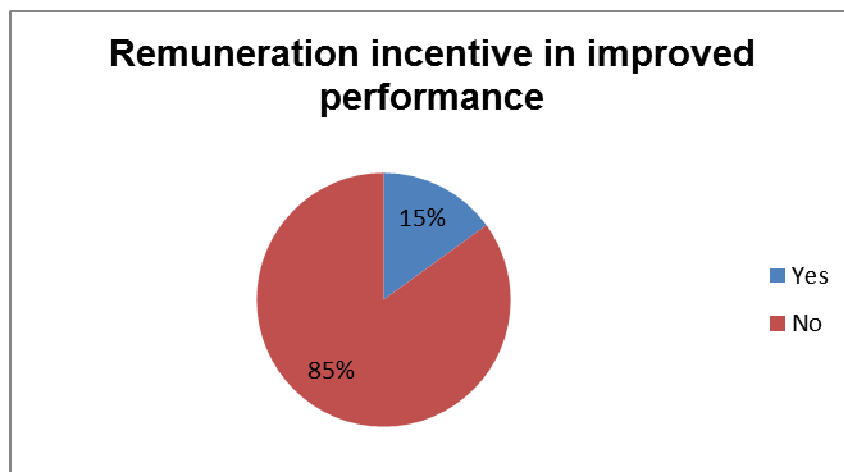


Figure 2. Remuneration Incentive in Improved Performance

The study also sought to find out the remuneration incentive in performance. According to figure 2 of the findings, the author established it has no impact on performance. This is an indication of no reward and recognition which are some ingredients of motivation. According to Armstrong (2003) if staff is de-motivated in one way or another there will be serious breakdown of service delivery and quality of service will be negatively affected.

Table 1. Performance Incentives System with respect to performance

Statement	1	2	3	4	5
Performance contracting has resulted in employee empowerment	10%	63%	13%	10%	4%
Employees are being coached better with performance contracting	25%	52%	16%	5%	2%
There is more training and staff development with performance contracting	32%	48%	12%	4%	4%
Since performance contracting controlling officers are more transparent	30%	52%	14%	4%	
Performance contracts provide appropriate inducements to increase efficiency	26%	63%	9%	3%	1%
Compensation/ reward scheme is adequate	30%	58%	7%	5%	
There is enhanced teamwork	26%	50%	15%	5%	4%
Promotions are more transparent	30%	50%	10%	5%	2%

The author sought information on performance incentive systems to performance at the Ministry. The findings in table 1 show that the most participants disagreed with the statements put up by the author, an indication of no satisfaction on the employees. These findings are contrary to Bowen and Lawler 1992) who found out empowerment produces more satisfied customers and employees

### 3.2 Correlation analysis

The study was based on the hypothesis; there is no correlation between performance incentives and service delivery.

The correlation results were therefore rated as, Performance incentives ( $r = 0.659$ ), showing that there exists a high correlation between Performance incentives and service delivery. The p value (0.000) indicated that the error rate in the measurement of the correlation was low; therefore the correlation coefficient value was statistically significant. The hypothesis can therefore be accepted.

#### 4. Conclusion

The study found that performance incentive system in the ministry did not enhance performance. This implies that the performance contract had a negative impact on the performance in the ministry.

Appropriate objectives and making effective use of appraisals can improve organizational performance and also facilitate assessment of how well the employees are performing. Involving staff in setting targets can ensure that they are more motivated to meet them and they identify better ways of carrying out the tasks.

The paper also concludes that performance incentives are critical in the link between performance contracting and service delivery. It is demonstrated through employee empowerment and development, and reward system.

#### 5. Recommendations

The author reveals that much needs to be done on the incentive system in the ministry. The ministry should thus invest more on the incentive system towards enhancing performance.

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