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## **IMPACT OF PERFORMANCE BUDGETING ON SERVICE DELIVERY IN STATE CORPORATIONS IN KENYA**

**A survey of the regional development authorities**

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*Full Length Research*

# Impact of performance budgeting on service delivery in State Corporations in Kenya: A survey of the regional development authorities

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This study focused on the impact of performance budgeting on service delivery by State Corporations. The study focused on the six Regional Development Authorities. Performance budgeting refers to procedures or mechanisms intended to strengthen links between the funds provided to public sector entities and their outcomes and/or outputs through the use of formal performance information in resource allocation decision making. The study reviewed the impact of objectives, performance measures, strategic aspects and outcomes on service delivery by regional development authorities. Random sampling strategy was employed and the findings of study analyzed using both descriptive and inferential statistics. The study findings indicate that performance based budgeting does impact positively service delivery by state corporations. In particular the study findings indicate that focus on performance measures and outcomes in performance based budgeting had a larger impact on service delivery hence a need to lay that emphasis for policy formulation. The study recommends future research to review other factors which also impact service delivery and recommends enhanced use of performance based budgeting to improve service delivery within the Government.

**Keywords:** Objectives Performance measures, strategic aspects, relevance of outcomes, Service delivery, Regional Development Authorities.

## INTRODUCTION

### Background and research gap

According Pollitt and Bouckaert (2004) the performance of the public sector can be investigated on different levels of aggregation namely public sector service delivery and efficiency in utilization of public resources. Management incentives have become a well-established phenomenon in the public sector (Grüning 2000). More and more countries started to implement management concepts from the private sector into their administrations (Aucoin 1990; Behn 1995). They attempted to generate value-for money by improving the "three E's": efficiency, effectiveness and economy (Starks 1991).

Proponents argue that a higher degree of managerial freedom and accountability, combined with performance measurement, leads to better results (McGill 2001). Although the behavior of managers is a critical part of this theory, the literature on new budgeting systems in the context of public sector reforms concentrates on their

financial, technical and institutional aspects (Grizzle and Pettijohn 2002; Melkers and Willoughby 2008; van der Hoek 2005). However, as Moynihan argues, the allocation of resources is "abstract and inherently subjective" (Melkers, 2008).

Performance based budgeting has been noted to have numerous benefits; it provides accountability to the public. In the public sector, resources are borrowed from the shareholders. As stewards of the resources, governments are required to deliver some product or result. It drives redesign of programs (focuses on improvement). Performance supported budgeting can be a driving force in the redesign of programs and the driving force in integration within agencies, and across agencies. If it is focused on improving, there will be a more effective overall plan (Grüning 2000).

The six regional Development Authorities were the SAGAS under the defunct ministry of Regional

Development Authorities, currently a Directorate in the new look Ministry of water and irrigation. The Ministry of Regional Development Authorities (MORDA) was established under the Presidential Circular No. 3/2003 to provide policy guidance, enhance capacity building, management oversight and support to Regional Development Authorities (RDAs) (Regional Development Authorities report, 2010).

Regional Development Authorities (RDAs) were established based on river basins and large water masses to reverse disparities in development of different regions by complementing the work of line ministries through planning, developing and implementing multi-sectoral and coordinated development programmes and projects in their regions such as provision of hydropower, flood control, water supply for irrigation, domestic and industrial use as well as environmental conservation (Regional Development Authorities report, 2010).

The RDAs are strategically placed and mandated to develop and implement integrated programmes that include some of the flagship projects proposed by vision 2030 thus contributing towards balanced regional development and poverty eradication within their areas of jurisdiction (Regional Development Authorities report, 2010).

### **Statement of the problem**

According to the RDAs sustainability report 2010, the Regional Development Authorities require at least 187 billion shillings for their development programmes covering 2008-2012. To achieve successful service delivery the RDAs need to focus on several measures such as Legal and policy framework, Structural and administrative reforms, Human resource management, Asset and financial management, Resource mobilization and utilization, Technology and innovation, Infrastructure, Linkages, Public relations and visibility, Sustainable agricultural development, Environmental management and strategic planning and budgeting. It is therefore important to assess the impact of the above mentioned measures on service delivery so as to effectively prioritize areas of actions. This study will help inform the impact of performance budgeting on service delivery of RDAs as a case study for state corporations.

### **Objectives of the study**

- To investigate the impact of objectives in performance budgeting on service delivery by Regional Development Authorities
- To establish the importance of performance measures in performance budgeting on service delivery by Regional Development Authorities
- To identify the importance of strategic aspects in performance budgeting on service delivery by Regional Development Authorities
- To assess the relevance of outcomes/results in performance on service delivery by Regional

Development Authorities.

## **Literature Review**

### **Theoretical review**

#### **Contingency theory**

Contingency approach to management accounting is based on the premise that there is no universally appropriate accounting system, which applies equally to all organizations in all circumstances Otley (1980). Since a performance measurement system is considered part of the management accounting system or at least depends on it in great part, the contingency approach to performance measurement can be formulated in the same way. Contingency theory therefore attempts to identify specific aspects of a performance measurement system that are associated with certain defined circumstances and to demonstrate appropriate matching (Rejc, 2003).

#### **Motivation theory**

Motivation to perform is guided by the use of budget as it sets the standard and a good measure of achievement in comparison with the expected estimates Bryan (1967). Motivation is the force that initiates, guides and maintains goal-oriented behaviors. If managers and subordinates are to be motivated to achieve higher levels of performance, it is not enough that a budget or financial target represents a specific quantitative goal but essential that these targets are accepted. It is impossible to specify exactly the optimal degree of difficulty for targets since task uncertainty, personality factors, cultural and organizational issues will all affect this.

### **Empirical review**

Olsen and Edie (1982) define strategic planning as a disciplined effort to produce fundamental decisions and actions that shape and guide what an organization is, what it does, and why it does it. To deliver the best results, strategic planning requires broad yet effective information gathering, development and exploration of strategic alternatives, and an emphasis on future implications of present decisions. Strategic planning can help facilitate communication and participation, accommodate divergent interests and values, foster wise and reasonably analytic decision making, and promote successful implementation. In short, at its best strategic planning can prompt in organizations the kind of imagination—and commitment—that psychotherapist and theologian Thomas Moore thinks are necessary to deal with individuals' life conundrums.

Performance measurement cannot be done in isolation. Performance measurement is only relevant within a reference framework against which the efficiency and effectiveness of action can be judged. In the past, performance measurement has been criticized for judging performance against the wrong frame of reference and now there is widespread support for the belief that

**Table 1:** Number of years worked in the Regional Development Authority

Years	Frequency	Percent	Cumulative Percent
Less than 10	20	9	9
Over 10	210	91	100.0
Total	230	100.0	

performance measures should be developed from strategy. Performance measurement has an impact on the environment in which it operates. Starting to measure, deciding what to measure, how to measure and what the targets will be, are all acts which influence individuals and groups within the organisation. Once measurement has started, the performance review will have consequences, as will the actions agreed upon as a result of that review. Performance measurement is therefore, an integral part of the management planning and control system of the organisation being measured.

According to KPMG report (2011) Outcome-based budgeting (OBB) requires public sector spending to be aligned behind an approved set of governmental priorities, such as reductions in crime and unemployment or improved access to education and healthcare. Although widely used in the private sector, the approach has been slower to take hold in government settings where budget, policy, and appropriation processes are more complex and transparent, involving more administrative layers and approval steps than in the commercial environment.

## RESEARCH METHODOLOGY

This study applied descriptive research design. There are various definitions for descriptive research design. The study used descriptive research design as the data collected by the survey attempted to provide descriptive information. It also used analytical techniques where the researcher analyzed information already available and looked at the present state of affairs. This is because data to be analyzed was categorically nominal data and qualitative in nature.

The target population was all the staff in the RDAs whose distribution is as follows: ENSDA (78), ENNDA (64), CDA (102), LBDA (110), TARDA (88) and KVDA (96). Thus the total target population was 538. The study used random sampling method. In this case, each individual was chosen randomly and entirely by chance such that each individual had the same probability of being chosen at any stage during the sampling process. The study employed the use of Cochran's formula (1977). This formula adopts 0.03 margin of error and an alpha of 0.05. The resultant required sample size based on the Cochran table was 288. This study used questionnaires to collect data.

This study used a combination of both descriptive and inferential statistics to analyze the data. Qualitative data was edited or cleaned up then arranged into themes and patterns using codes after which it will be analyzed and

interpreted. The regression model used was as follows;

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + e$$

Where Y = Service Delivery; X1 = Objectives; X2 = Performance measures; X3 = Strategic aspects; X4 = Outcomes and b1, b2, b3 and b4 are the slopes of the regression equation and e = error term

## FINDINGS AND DISCUSSIONS

### General Information

This section of the questionnaire sought to establish the employment history of the respondents.

The results in table 1 above on the number of years worked in the regional development authority was that 9% had worked for less than 10 years while the remaining 91% of the respondents had worked for more than ten years. The results mean that majority of the respondents had been in the organization long enough and this can be taken to imply that the respondents had enough experience to establish an effective budgeting process and also realize the benefits of performance budgeting on service delivery.

### Descriptive Statistics

#### Objectives

As indicated in the table 2, objectives were found to influence to a greater extent the service of the Regional Development Authorities. The involvement of line managers in developing individual segment objectives (mean, 3.7391), the allowance or variance on various parameters in the budget (mean, 3.7826) and the specification of every managers activity during the objective settings (mean, 3.6087) came in as an equally important activity in the performance based budgeting that will help in the achievement of the organization objective.

#### Performance measures

The findings indicated that the most important variable in performance based budgeting that the respondents found to affect the service delivery of the RDA's is performance measures (overall mean 4.52) as shown in table 3. It was found that if the views of employees are incorporated then the level of service delivery was going to be higher compared to when the performance measures are self imposed by the management. Thus the management of a firm should encourage employee participation in the performance measure setting, a process which will involve setting targets that are achievable. This finding is similar to that of Joshi et al., (2003) who posited that performance measure setting participation is expected to

Table 2: Objectives

Objectives	Mean	Std. Deviation
Line managers are key in setting objectives in performance based budgeting which directly influences service delivery by the respective department	3.7391	.81002
Top management communicate the budget plan objectives to those preparing the budgets and this helps in service delivery	4.2173	.59974
The objectives clearly define the allowance of variance to be made for the financial period	3.7825	.67124
Past objectives are used as the base for setting future performance based budgets objectives	3.6957	.822213
Objectives are set from lower levels all through to the top level	3.6088	.653678
Overall Mean	3.80868	

Table 3: Performance Measures

Performance Measures	Mean	Std. Deviation
Employee participation in performance measures setting will result in overall improvement in service delivery	4.6958	.47047
It increases accountability and acceptability amongst staff leading to high levels of engagement and thereby improved service delivery	4.6086	.49974
It leads to setting of realistic targets which are linked to performance making the overall experience efficient	4.3913	.49901
Participation in setting of performance measures leads to increased trust which ensures sustained better service delivery	4.5270	.52107
Performance measures tests whether performance based budgeting is an effective process of increasing service delivery or a clerical tool	4.3913	.49901
Overall Mean	4.5228	

Table 4: Strategic Aspects

Strategic Aspects	Mean	Std. Deviation
The overall mission and objectives should clearly be indicated in performance based budgeting	3.4567	.67047
Sensitization on strategic initiatives drives a sense of ownership in performance based budgeting	3.6033	.79974
It leads to ownership and sense of empowerment to deliver increased service delivery	3.0913	.69801
Focus on strategic aspects provides foresight into long term goals and attainment of improved service delivery	3.5170	.52107
All employees have contributed in shaping the strategic aspects in performance based budgeting hence improved service delivery	2.3913	.69901
Overall Mean	3.2119	

be a crucial channel to improve the information exchange and sharing among all levels of management and when this process is pursued by a firm, it is expected that service delivery is improved. Further, the results under the performance measure process is such that when the performance measures originate from the lowest levels of management (mean 4.3913), it can be better refined and coordinated at higher levels and this process lead to improved ownership of the performance measurement by the staff.

#### Strategic aspects

From the results in table 4, it was evident that the level of strategic aspects was not a strong factor that will influence the service delivery by Regional Development Authorities. This implies that employing sophisticated strategic aspects will help in the operational section of the firm and not the service delivery of the firm.

#### Outcomes

Outcomes were found to be another factor that will determine how performance based budgeting is going to influence service delivery by regional development authorities. Outcomes (overall mean, 3.7539) as shown in table 5 were identified as an important component in service delivery. It is important that a feedback mechanism is introduced in the budget process which will help in flagging of any deviating results or activities that will not cause the overall service delivery not to be achieved. The outcomes involve determination of the budget variance which helps in adoption of management by exception strategy and therefore relieving the managers to concentrate on other pressing issues (mean, 3.8244), operational control which takes the form of evaluating the actual cost expense against the plan and taking the corrective action where necessary (mean, 3.8225) and linking the strategic planning and

Table.5: Outcomes

Outcomes	Mean	Std. Deviation
Introducing feedback mechanisms in performance based budgeting helps improve service delivery	3.7967	.44047
Determination of budget variance enables identification of key areas of improvement in service delivery	3.8224	.56674
Evaluation of actual cost factors will eliminate unnecessary tasks leading to overall improved service delivery	3.8425	.44801
Review of outcomes in performance based budgeting helps eliminate recurrence of errors eliminating wastage	3.5170	.52107
All operational aspects of performance based budgeting influence service delivery	3.7913	.69901
<b>Overall Mean</b>	<b>3.7539</b>	

Table 6: Results of general least square

Model	Unstandardized Coefficients		Standardized	t	Sig.	Collinearity	
	B	Std. Err	Beta			Tolerance	VIF
(Constant)	69.850	44.209		2.614	0.011		
X <sub>1</sub>	2.461	4.461	0.108	1.038	0.302	0.902	1.109
X <sub>2</sub>	3.194	5.389	0.039	0.381	0.704	0.934	1.071
X <sub>3</sub>	2.020	4.390	0.020	0.189	0.850	0.833	1.201
X <sub>4</sub>	2.377	6.848	0.029	0.270	0.788	0.854	1.171

Source: Researcher 2015

operational control

**Regression analysis**

The impact of performance based budgeting on service delivery was also investigated from the results of the respondents. From table 6, the established multiple linear regression equation becomes:

$$Y = 69.850 + 2.461X_1 + 3.194X_2 + 2.020X_3 + 2.377X_4$$

Source: Researcher 2015

The coefficient of intercept C has a value (69.850) though it is insignificant at 95% confidence level that was applied in the analysis. The coefficient of budget planning (X<sub>1</sub>) is 2.461 and is significant at 5% significance level. This means that a unit increase in the budget planning process will increase the service delivery index by 2.461 units. Of all the independent variables, performance measures was found to be one that affects the most service delivery of regional development authorities.

**Summary and Interpretations of Findings**

The Performance Based Budgeting should consider the changes in the business environment. The need for flexibility was also supported by Mclaughlin (1992) who posited that a budget must be flexible enough to change to suit the current environment and during the period, it must be constantly reassessed to adapt to changing market conditions such as new competition, price changes and personnel availability. As Eker (2006) also observed, participation by individuals will lead to greater group interaction, which will be a good thing if the individuals value their membership of the group and see the goals of the group as being collective targets that

they all regard as desirable. This finding supports this position.

The major contribution of the current research is the construction of a new conceptual framework to show how the performance based budgeting process impacts the service delivery of state owned enterprises. The conceptual model tells us that performance measures and outcomes will improve service delivery of state owned enterprises.

**CONCLUSION**

From the research findings and the answers to the research questions, some conclusions can be, made about the study.

Adoption of effective performance based budgeting has an impact on service delivery of state owned enterprises. It is also important that a firm should explore the need to adopt participation budgetary process where all the employees through there section heads, present their views which are then considered by the budgeting committee.

Such participation will increase the success of the performance based budget. Performance measures are also an important step in realization of the budgeted targets. Introduction of performance measures will facilitate effective utilization of resources which have been allocated in the budget are spent on the intended projects and thus improving its performance in relation to service delivery.

In addition, when implementing the organization's budgetary procedures, budgetary decision makers should involve unit managers through periodic communication and any deviation from the mean should be investigated

considering the environmental changes that have occurred in the budget period. Budgetary procedures implementation addresses the extent to which budgetary decision makers, such as the manager's immediate supervisor, carry out the formal budgetary procedures in a way that is consistent with the manager's criteria for what is proper.

### Policy Implications

The parastatals should put in place tighter performance measures as an ineffective control will lead to the firms not being able to achieve the set targets as well as increased waste of resources. At the same time the number of staff involved in monitoring the budget should be assessed and if found not to cope with the work involved, then the organization should consider recruiting more staff. The staff should also be compensated handsomely by the firms so that their morale is boosted which is expected to improve the performance of the firms.

### Recommendation for Further Research

The study confined itself Regional Development Authorities in Kenya. This research therefore should be replicated in all other parastatals in different sectors and also establish a time period relationship between improvement of budgeting process and performance of the organizations. It also only examined whether performance based budgeting significantly and positively impacts financial performance. Further research can be undertaken to test whether forms of budgeting also impact service delivery and what other factors also impact service delivery by Regional Development Authorities.

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