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**The effect of financial governance on performance of Government  
Ministries in Kenya**

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## The effect of financial governance on performance of Government Ministries in Kenya

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### Abstract

**Purpose:** The purpose of this study is to establish the effect of financial governance on performance contracting results of Government Ministries in Kenya.

**Methodology:** The study used a descriptive research design. The target population of the study is Divisional heads, middle level managers and supervisors in 3 selected government ministries. These were Ministry of Education, Science & Technology, Ministry of Health and Ministry of Environment, Water & Natural Resources. Sample of 55 respondents was used.

**Results:** Result findings showed that financial governance influences performance contracting results of Government Ministries in Kenya positively.

**Policy recommendation:** Based on the finding the study recommends that the government should encourage prudent use of financial resources.

**Keywords:** *Financial resources, performance contracting, government Ministries*

### 1.0 INTRODUCTION

A performance contract is an agreement between a government and a public agency which set up general goals for the agency. In addition, these agreements stipulate targets for measuring performance and offer incentives for attaining these targets (Hunter and Gates, 2008). They include a various incentive-based mechanisms for managing public agencies which have effect on the outcome instead of the process. The positive results of Performance Contracts in various countries such as France, Pakistan, South Korea, Malaysia, India, and Kenya has stirred a great deal of interest in this policy around the world (Wheeler, 2001).

Over time, governments have continually encountered the challenge of desiring to do things differently but with limited resources. Performance contracting assists in solving this challenge by providing a way for achieving desired behavior in the contest of decentralized management structures. Employers' value performance contracting since it is a useful vehicle for defining roles and offer support to new managers in their supervisory and control roles. In addition,

performance contracting gives managers freedom to execute their day-to-day responsibilities (Domberger, 2008). In Kenya, performance contracting framework was adopted by the Kenyan Government in the Public Service in 2004. Its introduction has helped to improve service delivery in the public sector (GoK, 2010).

## **1.2 Problem statement**

The government introduced performance contracts in 2003 since the performance of the public sector in general and specifically the government agencies had over time fallen below expectations (Office of the President, 2005). However, despite this realization little research has been done to determine the determinant of performance contracts in Government Ministries in Kenya and their impact on performance.

The reviewed local studies include those of Obong'o (2009) which focused on historical perspective of the performance contracting in Kenya. He did not critically address the issue of performance contracting results in Government Ministries in Kenya. Studies by Muganda and Van Belle (2008) had a contextual gap since it focused on the local authorities only while this study addresses government ministries. Hence, this study sought to establish the effect of financial governance on performance contracting results in government ministries in Kenya.

## **1.3 Research Objective**

- i. To establish how financial governance influence the performance contracting results of Government Ministries in Kenya.

## **2.0 Theoretical framework**

### **2.1 Agency theory**

According to Jensen & Meckling (1976), Principal-agent theory in economics is based on several key assumptions about human and organizational behavior. First, individuals and organizations are assumed to be rational in the pursuit of their self-interest. This results to variance of interests between the principal (owner) and agent (producer). The disconnection of ownership from production results to increased cost and complexity in monitoring the agent's behavior. This builds up information asymmetry that is beneficial to the agent as he performs a task on behalf of the principal. Under these conditions, two agency problems arise: moral hazard and adverse selection.

Moral hazard refers to occurrence of opportunistic behavior by the agent. Differing interests and information asymmetry favors the agent through creating opportunities for the agent to engage in behavior that maximizes his utility but conflicting the goals of the principal (Kiser, 1999). Through monitoring, the principal discovers opportunistic behavior and aligns the agent's behavior with his own goals. This helps in improving the outcomes of contractual relationships (Kiser, 1999). This theory is relevant to this study as the determinants of Performance Contracting Act as the agents of the departments and must act in good faith to fulfill the principles of the Principal and help reduce agency costs that strains the available resources.

## 2.2 Goal Setting Theory

Locke (1960) affirmed that patent goals and proper feedback motivates employees. Additionally, he said that when employees are motivated when they work towards a goal. Locke's study shed some light on the link between goals and performance. According to his study, specific and difficult goals resulted to better results and performance than those of vague, randomly set or easy to do goals. Locke and Latham, (1984) suggested that assignment of specific goals not only result in improved performance but also leads to increased motivation (Mitchell *et al*, 2000).

Goal-setting theory does not emphasis on rewards but rather stresses on the inspiring power of defining appropriate work goals and engaging employee commitment to them (Marsden, 2004). Several studies have tried to establish the relationship between goal-setting and performance. Most of the evidences support the theory strongly. Marsden and French, (2001), found out that employees caused managers to set targets more precisely where the objectives contracted performance.

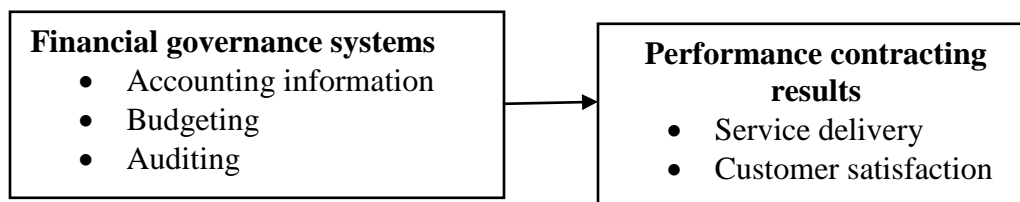
The theory is relevant to this study as Performance Contracts has a lot in setting goals and agreeing with the Ministry on the same. They are evaluated on the goals they have set themselves which forms the basis of Performance contracting.

## 2.3 Empirical Literature Review

Miring'uh and Mwakio (2006) argued that financial governance affects performance contracting. An example is the Local authorities and county governments in Kenya. The local authorities have been riddled with corruption and financial mismanagement. The county governments are also said to be suffering from misuse of public funds. In addition, counties are said to suffer financially due to cases of revenue theft and excessive expenditure. The implication is that, local authorities and the county governments cannot meet their performance contracting goals.

Bouckaert et al. (2009) advocated for the creation of financial governance measures in an effort to improve performance contracting. This financial governance measures include; having a strong internal audit which is effective in carrying out its monitoring roles, financial budgeting which enhances the setting up of budgets, the analysis of budgets, the investigation of variances and follow up on negative variances.

## 2.2 Conceptual Framework



**Figure 1: Conceptual Framework**

## 2.0 METHODOLOGY

A descriptive research design was used in this study. The target population of the study composed of 185 Divisional heads, Middle level Managers and Supervisors in three ministries. A sample of 55 respondents. Questionnaires were used to collect data. Data reliability and validity was tested through a pilot test.

## 4.0 RESULTS FINDINGS

### 4.1 Response Rate

The number of questionnaires that were administered was 55. A total of 41 questionnaires were properly filled and returned. This represented an overall successful response rate of 75%.

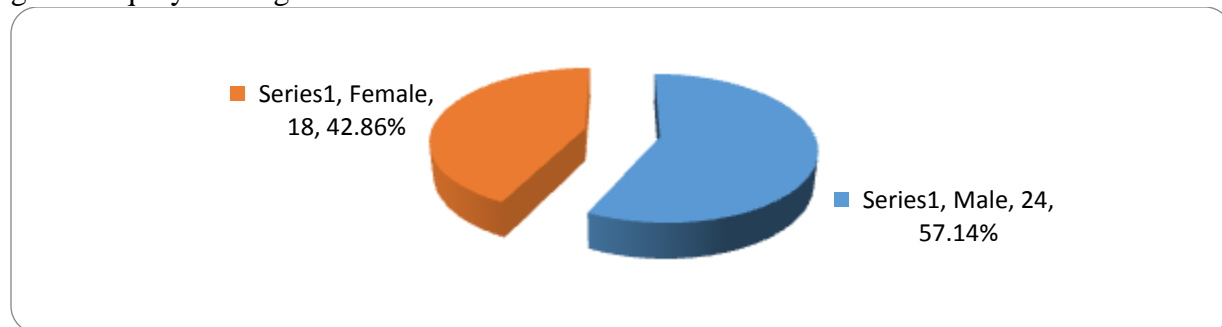
**Table 1: Response Rate Data reliability and validity was tested through a pilot test.**

Response	Frequency	Percent
Returned	41	75%
Unreturned	14	25%
<b>Total</b>	<b>55</b>	<b>100%</b>

### 4.2 Demographic Information

#### 4.2.1 Gender Composition of Respondents

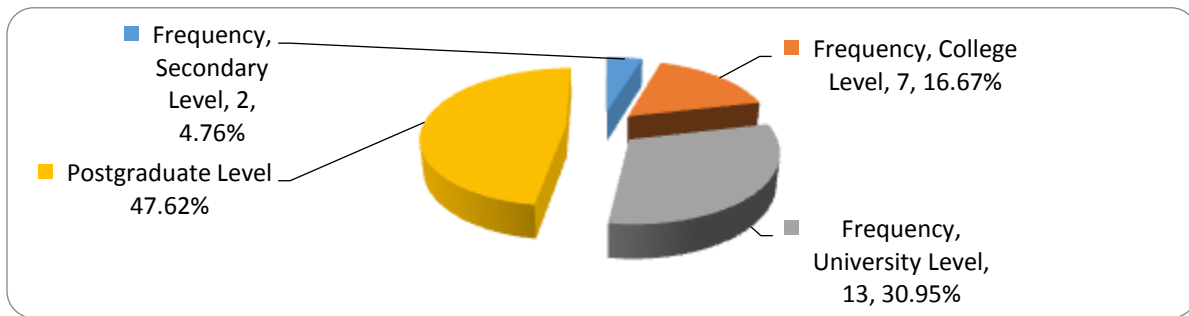
The study sought after finding the gender distribution of respondents. Results on figure 2 shows that 57.14% of the respondents were male and 42.86% of the respondents were female. This shows that there was no gender disparity amongst the respondents implying that there exists gender equity in the government ministries.



**Figure 2: Gender**

#### 4.2.2 Level of Education

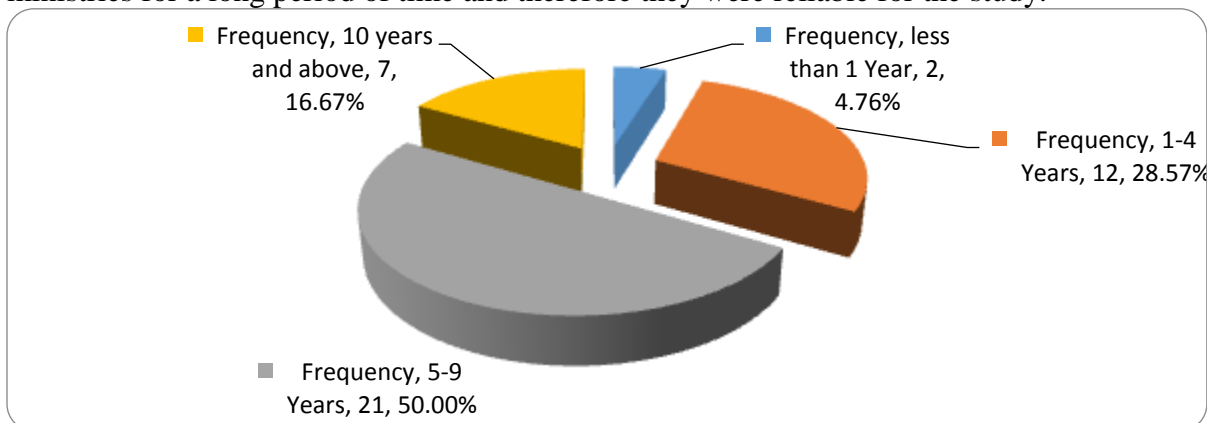
The study further sought after establishing the level of academic qualifications obtained by the respondents. The responses on this question are depicted in figure 3. A majority of 47.62% of the respondents reiterated that they had acquired post graduate education, 30.95% university level, 16.67% college level while only 4.76% of them had education up to the secondary level. This implied that the respondents had attained high education.



**Figure 2: Level of education**

#### 4.2.3 Years of Employment in One Capacity

The respondents were told to indicate the number of years they had worked in the same capacity in the government ministry. Majority 50% of the respondents indicated that they had worked in the same capacity for a period of between 5-9 years, 28.57 % of the respondents indicated they had worked in the same capacity for a period between 1-4 years, 16.67 % of the respondents indicated that they had worked in the same capacity for more than 10 years year while 4.76% of the residents indicated that they had they had worked in the same capacity for less than 1 year. This is an implication that, in the government ministries, it takes time before one is promoted to a higher position. It can also imply that the respondents had worked with the government ministries for a long period of time and therefore they were reliable for the study.



**Figure 3: Years of Employment in the Same Capacity**

### 4.3 Descriptive Analysis

#### 4.3.1 Financial governance and Performance Contracting

Table 2 presents the influence of finance governance on performance contracting. Results indicate that majority 92.9% of the respondents agreed that financial procedures and reporting systems are in place, 61.9% of the respondents agreed that latest accounting information systems are used for generating reports for stakeholders, 82.9% of the respondents agreed that budgeting

process is integrated into annual implementation plan, 59.5% of the respondents agreed that revenue collection and usage is free from political interference, 47.7% of the respondents agreed that revenue collection system is streamlined and well mobilized and 64.3% of the respondents agreed that there is an elaborate and effective internal control framework for detection and prevention of frauds. The mean of the responses indicated from the results was 3.8 which show that the respondents were agreeing on most of the statements while the standard deviation was 0.8 which indicates that the answers received were varied as they were dispersed far from the mean.

**TABLE 2: Finance Governance Influences on Performance Contracting**

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	StdDev
Financial procedures and reporting systems are in place	0.00%	0.00%	7.10%	76.20%	16.70%	4.1	0.5
Stakeholders reports are generated from information accounts	0.00%	2.40%	35.70%	26.20%	35.70%	4.0	0.9
Budgeting process is integrated into annual implementation plan	0.00%	0.00%	17.10%	63.40%	19.50%	4.0	0.6
Revenue collection and usage is free from political interference	0.00%	14.30%	26.20%	38.10%	21.40%	3.7	1.0
Revenue collection system is streamlined and well mobilized	0.00%	4.80%	47.60%	42.90%	4.80%	3.5	0.7
There is an elaborate and effective internal control framework for detection and prevention of frauds	0.00%	11.90%	23.80%	47.60%	16.70%	3.7	0.9
<b>Average</b>						<b>3.8</b>	<b>0.8</b>

## **5.0 SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Summary of Findings**

The third objective of the study was to establish how financial governance influences the performance contracting results of government ministries in Kenya. The study findings indicated financial governance management influences had effect on the performance contracting results of government ministries in Kenya. This was demonstrated by descriptive statistics that showed that majority of the respondents agreed that; financial procedures and reporting systems are in place, latest accounting information systems are used for generating reports for stakeholders, budgeting process is integrated into annual implementation plan, revenue collection and usage is free from political interference, revenue collection system is streamlined and well mobilized and there is an elaborate and effective internal control framework for detection and prevention of frauds. Regression results indicated that there was a significantly positive relationship between financial governance management influences and performance contracting.

### **5.2 Conclusion**

The study concluded that human resource management influences affected the performance contracting results of Government Ministries in Kenya positively. This implies that an improvement in the human resource management practices in the government ministries would mean better results of performance contracting.

### **5.3 Recommendations of the Study**

Based on the finding the study recommends that the government should encourage prudent use of financial resources.

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