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No Key Opens Every Door: The Failure of NPM-Based Performance Contracting in Malawi

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Introduction

NPM has enjoyed massive publicity as a reform model in the past decade. The key to NPM is the implementation of market-based principles and policies in the management of the public sector. The aim is to enhance efficiency and effectiveness in public-service delivery. Central to the NPM management model is the employment of public servants based on performance-contract schemes. However, the problem with NPM reforms is that they assume universality. The thinking is that the NPM reforms can rectify all public-sector problems regardless of country-specific conditions. NPM is thought to be a magic key that will fit any door, and developed, developing and transitional countries have all implemented the reforms based on this belief.

Malawi was no exception. The country begun implementing contract-based performance management in 2000. The expectation was that this would herald a new chapter in the delivery of public services. However, the reforms encountered such massive challenges that the government abandoned the system in 2007 and resumed the traditional long-tenure and pensionable system. This paper examines the challenges that the NPM-based performance contract scheme encountered in Malawi and shows why these challenges forced the scheme to be abandoned.

The New Public Management

The NPM paradigm has been the preferred public-sector reform model in many countries for the past decade. Central to NPM is the implementation of market-based principles in the running of the public sector. The rationale is that, since the private sector is efficient and effective due to effective management practices, the same market principles should be applied to make the public sector efficient and effective. The underlying argument is that all organisations, whether public or private, 'need to be efficient, effective and to provide value for money' (Turner and Hulme 1997:106). Although there are varying accounts in the literature of exactly what NPM consists of, its basic components are well understood. Christopher Hood (1991:5) summarises the seven 'doctrinal' components of NPM as follows:

- Hands-on professional management in the public sector. This means 'active visible, discretionary' control of organisations from named persons at the top who are 'free to manage';
- Explicit standards of performance measurement. Here Hood means that there should be a 'definition of goals, targets, indicators of success, preferably expressed in quantitative terms, especially for professional services';
- Greater emphasis on output controls. This means that both resource allocation and rewards must be linked to performance;
- Shift to disaggregation of units in the public sector. This entails decentralisation and emphasises the 'breaking up of monolithic' public-sector organisations into small, manageable units;
- Shift to greater competition in the public sector. This means a move to 'term contracts and public tendering procedures'. In terms of recruitment, it entails contract-based employment with agreed performance standards;
- Private-sector styles of management in the public service. This means moving away from a 'military style public service ethic' and 'greater flexibility in hiring and rewards';
- Stress on greater discipline and parsimony in resource use. The emphasis here is on 'doing more with fewer resources'. It implies cutting direct costs, raising labour discipline, resisting union demands and limiting compliance costs.

Performance Contracting in NPM

The NPM model strongly champions performance-based contract employment for public managers. Turner and Hulme (1997:116) argue that the 'performance contract highlights the central issue in the reform of public sector management, that is, how to increase the responsibilities of public managers'. This is based on the slogan 'letting managers manage'' (Hood 1991). According to the Economic Commission for Africa (2003:20), performance contracts specify 'standards of performance or quantifiable targets which a government requires public officials or managers of public agencies or ministers to meet over a stated period of time'. This is emphasised by Shirley and Nellis (1991:21, cited in Turner and Hulme 1997:189), who argue that performance contracting aims at 'giving management greater autonomy over the operation of the public sector and holding managers accountable by negotiating targets, monitoring and evaluating results, and rewarding managers and staff on the basis of performance'. The understanding is that 'if managers are given greater freedom to manage, they must correspondingly be under an obligation of accountability for their performance' (Minogue 1998:26). The aim is to replace 'rules-based, process-driven' public administration by 'results- oriented' public management (Osborne and Gaebler 1992). The logic is that, if managers are to assume such responsibilities, they must be both professional and entrepreneurial. They need to be dynamic, resourceful, and adaptable in managing growth and diversification, and they need to be able to use various techniques of professional management in their routine operations (Khandwala 1989:7, cited in Turner and Hulme 1997:116).

NPM in the Malawian Public Sector

The implementation of NPM reforms in Malawi did not come explicitly. They arrived instead under the banners of the Action Plan for Civil Service of 1996 and the Public Sector Management Reform Programme of 2002 (Tambulasi 2007). These programmes were heralded as efforts to 'reshape and revitalise the public service' (Government of Malawi 2002:5) and to 'introduce the most optimal organisational, institutional and individual competence' for efficient service delivery (Government of Malawi 2002:9). The understanding was that the reforms would lead to an 'entrepreneurial public service' (Government of Malawi 2002:9) that would result in the 'delivery of quality public services' (Government of Malawi 2002:5) as well as 'ensure the civil service's affordability and sustainability over time' (Government of Malawi 1996:2).

According to the Malawi government (2002:9), the reforms were to be oriented towards:

- empowering citizens;
- focusing on outcomes, not on inputs;
- being driven by mission, not rules and regulations;
- earning more, not just spending more;
- favouring market mechanisms over bureaucratic mechanisms;
- focusing on catalysing sectors, not just providing services.

The actual reforms implemented in order to realise these goals included decentralisation, downsizing, rationalisation, privatisation, user fees and cost recovery, salary structure reforms, private-public partnerships, capacity building, better public expenditure management, increased use of digital technology and a shift to performance contracting. In the following sections of this paper, we will take a closer look at the performance-contracting reforms.

Performance Contracting in the Malawian Public Sector

Malawi began implementing performance contracting in 2000 according to guidelines set out in the *Performance Management Hand Book for the Malawi Civil Service* of 2000. The system encouraged the employment of public sector managers on three-year contracts renewable upon successful achievement of performance targets. However, this was not compulsory and was only availableto managers in the grades S4/P4 (deputy directors) and above. Managers in these grades who had reservations about the new contract scheme had the option of remaining in the traditional pensionable scheme. However, the contract employment scheme included 'monetized benefits, leading to a tripling of base salaries' (Fozzard and Simwaka 2002:13). Three-quarters of eligible staff opted for contracts.

Although Durevall and Erlandsson (2005:15) note that the contract scheme was championed by the World Bank 'in an attempt to remedy some weaknesses of the pay structure', the system was touted as 'herald[ing] a new chapter in the delivery of high quality services to the public' (Government of Malawi, 2000) and offering 'better value for money by making managers focus more competently and efficiently on core functions and policy priorities of government' (Government of Malawi 1996:14). Performance contracting was therefore oriented to the achievement of a 'specific result or outcome the employee is expected to create or contribute' (Government of Malawi, 2000:5). The reasoning was that this would allow the 'enhancement of the management of performance by managers and [of] policy-making capacity' by political leaders (Government of Malawi, 1996:10). Durevall and Erlandsson (2005:15) note that the attractive performance-based salaries were supposed to provide incentives for controlling officers not to overrun their budgets and to withstand ministers' desire to overspend. As a result, an improvement was expected in 'planning, resourcing, monitoring, management and accounting systems so that resources are more sharply focused on priorities and public expenditure is more effectively controlled' (Government of Malawi 1996:3). The vision was to create 'an affordable, highly motivated, productive, professional and result oriented public service' that would 'deliver services to the public in an efficient, effective and responsible manner in order to satisfy national aspirations and promote the growth of wealth creating private sector' (Government of Malawi 2002:11). The need was 'to design and implement organisation and staffing structures and management systems which enable ministries and departments to achieve their objectives efficiently' (Government of Malawi 1996:3).

In line with the dictates of NPM, the performance-contracting scheme in Malawi had performance targets that public managers were expected to achieve, with the success of managers being measured against those targets. Below we discuss in more detail the performance targets, measures and contract-related rewards and punishments, as enshrined in the *Performance Management Handbook for the Malawi Civil Service*, on which the performance-contracting system was based

Performance Contracting Targets

Leadership Targets

The first set of targets was concerned with leadership. For contract employees to excel, they had to show that they were creative and had a clear vision, were able to initiate and manage change in the pursuit of strategic objectives and maintained high standards of integrity, honesty and drive in their work. The maximum score for this target was 10 points.

Managing People

This performance target entailed being able to develop staff to meet challenging organisational needs, to make use of skills and resources within a team, to build trust, good morale and team work and to secure commitment to change through appropriate involvement of staff. The maximum score for this target was 10 points.

Managing Financial Resources

In terms of the management of financial resources, employees had to demonstrate that they could secure value for money, negotiate for the resources to do the job in the light of wider priorities and commit and re-align resources to meet key priorities. The maximum score for this target was 10 points.

Strategic Thinking and Planning

The targets for strategic thinking and planning included developing and influencing strategic aims in anticipation of future demands, opportunities and threats, demonstrating sensitivity to the ministry's needs and wider environmental issues and translating strategic aims into practical and achievable plans. The maximum score for this target was 5 points.

Delivery of Results

With regard to delivery, managers had to be able to make quality decisions on time and with integrity, define results in relation to stakeholders' needs, manage relationships with customers/stakeholders effectively, organise work processes to deliver on time and/or on budget and to agreed quality standards, strive for continuous performance improvements while encouraging others to do the same and monitor performance and incorporate feedback in future plans. The maximum score for this target was 5 points.

Communication and Interpersonal Skills

In the area of communication and interpersonal skills, managers were supposed to show they were capable of negotiating effectively and handling hostility, being concise and persuasive both orally and in writing, listening with sensitivity to others' reactions; and building, maintaining and using an effective network of contacts. The maximum score for this target was 5 points.

Expertise and Professional Competence

Expertise and professional competence were measured by managers' ability to accept personal responsibility for the quality of their work, give professional advice to others, ensure that decisions were informed by relevant specialists or experts and influence decisions through the depth and breadth of their expertise. The maximum score for this target was 5 points.

Intellect, Creativity and Judgment

Managers deemed to have high degrees of intellect, creativity and judgment had to demonstrate the ability to focus on key issues and principles, follow a creative and constructive approach to solving problems, offer insights and generate original ideas with a practical approach, analyse ambiguous data and concepts rigorously, display confidence in their own judgement while also responding constructively to alternative ideas and encourage ideas, initiatives and innovations. The maximum score for this target was 5 points.

Personal Effectiveness

The last target was concerned personal effectiveness. To demonstrate this quality, one had to be able to adapt quickly and flexibly to new demands, manage time well to meet competing priorities, take a firm stand when circumstances warranted, be aware of personal strengths and weaknesses, show commitment to one's personal and professional impact on others and pursue adopted strategies with energy and commitment. The maximum score for this target was 5 points.

Performance Measurement and Outcomes

Performance was measured using five "levels", as shown in table 4.1 below, and an aggregate overall performance score calculated.

Table 4.1: Performance Rating

Grades	Rating Levels	Description
Outstanding	Level 5	Exceeds expectations and objectives
Very Good	Level 4	Achieves objectives and expectations
Good	Level 3	Meets most objectives and expectations
Satisfactory	Level 2	Barely meets most objectives and expectations
Unsatisfactory	Level 1	Does not meet objectives and expectations

Source: Adapted from Government of Malawi 2000

Based on the aggregate performance score, managers would then be offered contract-related rewards or sanctions as shown in table 4.2 below.

Table 4.2: Performance Rewards and Sanctions

Grades and Levels	Recommended Rewards	Recommended Sanctions
Outstanding (Level 5)	• Distinguished Award • Recommendation for promotion • Opportunity to renew contract	None
Very Good (Level 4)	• Recommendation for promotion • Opportunity to renew contract	None
Good (Level 3)	• Opportunity to renew contract	Recommendation for improvement
Satisfactory (Level 2)	• Negotiated opportunity to renew contract	Recommendation for significant improvement
Unsatisfactory (Level 1)	• None	Recommendation for termination of contract

Source: Adapted from Government of Malawi 2000

Performance Contracting in Malawi: A Failed Experiment?

Performance contracting in Malawi was trumpeted as a key instrument for the attainment of public-sector efficiency and effectiveness. This was in line with the African Development Fund's position (2004:5) that performance contracting leads to 'increased efficiency as the senior staff takes advantage of better incentives in exchange for greater accountability in terms of agreed upon results'. In practice, however, the challenges faced by the performance management scheme in Malawi were so huge that the government abandoned the scheme altogether and went back to the traditional pensionable system in May 2007. The abandonment of performance contracting affirms Islam's observation (1993, cited in Turner and Hulme 1997:190) that performance contracts are 'theoretically sound' but practically unattainable.

The first problem with the performance-contracting scheme in Malawi is that it was adopted too quickly (Durevall and Erlandsson 2005:15). It was implemented in haste, without regard to the specific social, cultural and economic conditions it was to operate in. In addition, there was not much background preparation in terms of putting in place the required institutions for the effective implementation of the scheme. For instance, the World Bank (2003:21) notes that employees on the contract system had 'not been linked to their correct salary grades thus leading to erroneous salary payments' (World Bank 2003:21). Moreover, the performance contracts did not enjoy institutional support, as many employees did not want to be evaluated. Many public managers 'hesitated for fear of unfair performance appraisals' (Durevall 2001:13). Durevall and Erlandsson (2005:15) argue that performance evaluations were not in the interest of the majority of senior public officials, while Fozzard and Simwaka (2002:12) note that the performance targets were 'vaguely couched' and difficult to measure. No reliable instruments for performance measurement were available.

At a deeper level, effective performance contracts require 'investment in skilled personnel, training, and introduction of a culture of innovative professionalism' (Turner and Hulme 1997:190). However, in Malawi, some officers on contract did not have the requisite qualifications and skills to meet the required performance targets. Promotion had not been based on qualifications but on experience and length of service. As a result, some public managers did not have the managerial expertise to achieve the efficiency goals. Even those who had good skills could not perform effectively and with a clear sense of creativity, intellect, innovation and judgment, because 'senor civil servants in many cases lacked sufficient control over their own organisation to actually be held responsible for the financial results' (World Bank 2003:53). One senior officer pointed out that 'in government, one has to work within policy guidelines and political considerations, so that the whole idea of discretion is rather difficult'.

Another major challenge concerned the sustainability of the performance-contract system. Turner and Hulme (1997:190) note that performance contracts work by motivating personnel through financial incentives. In Malawi, the new system resulted in dramatic increases in the salaries of the public officers who participated. Durevall (2001:13) estimates that these pay level increases were about 500 per cent. Valentine (2003, cited in Durevall and Erlandsson 2005:16) notes that public officers on contract, although comprising only 0.4 per cent of all civil servants, accounted for 6.8 per cent of the total wage bill. Those on contract ended up receiving the same salaries as top civil servants in Botswana, a country that has 18 times the GDP of Malawi, and far higher salaries than their counterparts in countries in the region with similar GDP (Valentine 2003). These salaries put huge pressure on the government wage bill, and, as a result, the performance scheme brought 'anxiety regarding the sustainability of the system itself' (Durevall 2001:13).

The problem of high salary costs was also cited as the reason for not extending performance contracts to middle or lower levels of management. However, this created another problem. It was found that middle-level and low-level managers are precisely the ones that required the contract system, because they are the officers most responsible for the actual performance of the public sector. In most cases, top civil servants only carry out ceremonial duties rather than hands-on management. Moreover, as Fozzard and Simwaka (2002:12) point out, senior staff are at the end of their careers. They are unlikely to resign in search of higher levels of pay, and their performance is dependent on that of lower-level staff anyway. Thus, as Durevall (2001:13) notes, 'initially only those close to retirement accepted performance based contracts'. Performance contracts also encouraged laziness and laxity by lower-level managers, many of whom thought there was no need to perform as they were not bound by a contract. According to the Principal Secretary in the Department of Human Resources and Development, 'the performance related contract scheme created an impression that it was only top management employees who were required to perform' (Daily Times, 12 June 2007). Moreover, the performance-contracting scheme was voluntary. All public officers eligible for contract employment had the option to be on the contract scheme or not. This meant the application of double standards. It implied that public servants who did not opt for performance contracts would not be expected to perform, while other public officials on the same level and grade who go for the contract scheme would be expected to perform very highly or lose their jobs. The result was generally uncoordinated and disjointed performance in the public sector. In addition, performance contracting distorted the salary structure of public servants. It increased the salary gap between the highest-paid employees and the rest. As a result, 'a small number of senior officials [were] … very highly paid by regional standards, while salaries at lower levels [were] much more modest' (Claussen et al. 2006:9), thereby creating an 'unusual pattern of remuneration' (Claussen et al, 2006:9). The abandonment of the performance contract therefore has been seen as an attempt to compress the salary structure.

Another important reason for the failure of performance contracting in Malawi was political. Many of those who did not opt for performance contracts based their decision on fears that the system would be abused by powerful political interests, and, indeed, performance contracting was subject to political abuse.

Some managers' contracts were terminated on political grounds rather than for lack of performance. Many public managers 'hesitated for fear of unfair performance appraisals' (Durevall 2001:13), a common reaction in the event of a change in government administration. Experience has shown that it is easier for senior government officers on contract to be removed from office, especially when they are perceived not to align with the ruling party or to be sympathetic to the opposition parties. The government can hide under the cover of "non-performance" when the actual reasons for non-renewal are political. Moreover, such decision are difficult to appeal, as the performance measures are highly subjective. The performance-based contract scheme in Malawi was criticized for being used as a political instrument of patronage to manipulate the bureaucracy for political gains. Khembo (2004:285) points out that most people on contract were 'party loyalists … [who were] awarded hefty packages through patronage' (Khembo 2004:285). For Khembo (2004:285), the aim of performance-based contracts was 'to politically neutralize the pervasive influence of permanent secretaries who had been appointed by the Malawi Congress Party (MCP) regime without dismantling them but by adding the known supporters of United Democratic Front (UDF) to this cadre'. The underlying aim was to gain 'extra- constitutional control of the state decision making machinery' (Khembo 2004:285).

Finally, public officials resented contract-based employment because of a favourable cultural orientation toward pensionable employment. This orientation is to earn less salary now in order to enjoy a better pension on retirement. The new system reversed this basic orientation, which may be why, as Durevall (2001:13) notes, 'only those close to retirement accepted performance based contracts since they since had little to lose'.

Conclusion

NPM reforms have been trumpeted as both universally applicable and effective in attaining higher levels of efficiency and effectiveness in the delivery of public goods and services. This paper, however, has shown that there is no such thing as a master key in performance management, because successful implementation of NPM-related tools depends on the country-specific environment. In the case of Malawi, although NPM-based performance-contract measures were put in place in order to achieve staffing structures and management systems that would enable ministries and departments to achieve their objectives more efficiently, Malawi simply does not have a conducive social, economic, political or cultural environment for the successful implementation of the system. As a result, the performance- contracting scheme failed, and the government abandoned it.

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