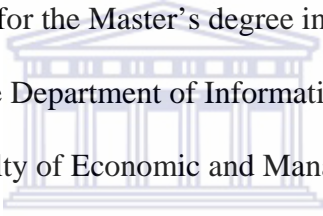


Title

An Information-Based Strategic Framework for Determining the Optimum Level of Project or  
Service Financing

A thesis submitted in partial fulfilment  
of the requirements for the Master's degree in Information Management  
in the Department of Information Systems  
in the Faculty of Economic and Management Sciences  
  
UNIVERSITY of the  
WESTERN CAPE  
of the University of the Western Cape

by

Danver Leonard Roman

Supervisor:

Professor Andrew Bytheway

Degree of confidentiality    None

08 2008



Hereby I, Danver Leonard Roman, declare that **“An information-based strategic framework for determining the optimum level of project or service financing”** is my own original work and that all sources have been accurately reported and acknowledged, and that this document has not previously in its entirety or in part been submitted at any university in order to obtain an academic qualification.

Danver Leonard Roman

2007/01

**TITLE**

**An Information-Based Strategic Framework for Determining the Optimum Level of Project or Service Financing**

Author

Danver Leonard Roman

**KEY WORDS**

Public Finance

Key Performance Indicators

Organisational Performance

Strategy Formulation

Financing Criteria

Risk Profiling

Balanced Scorecard

Performance Based Financing

Information Management

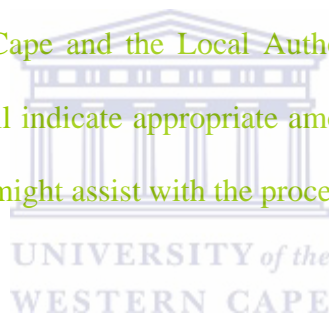
Financial determinants



## **ABSTRACT**

### **An Information-Based Strategic Framework for Determining the Optimum Level of Project or Service Financing.**

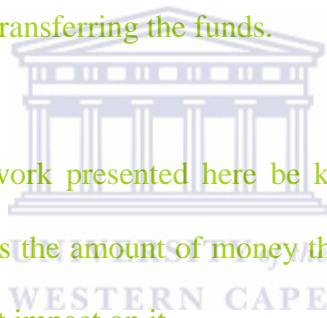
This thesis explores and explains the existence of a best practice model to optimise the transfer of funds (“the transfer funding process”) between funders and service providers in the public sector. Using ideas about best practice in a specific context, the Health environment, it investigates the perceptions of managers about the transfer of funds between the Provincial Government of the Western Cape and the Local Authority of the City of Cape Town, the existence of a formula that will indicate appropriate amounts to transfer to service providers, and how information systems might assist with the process and the formula.



An investigation was made into the areas of management interest that bear upon transfer funding, starting with the management of performance and finance. That led to the identification of a third area, namely, strategy. A framework was developed around these three areas. Further empirical investigation and triangulation with the literature revealed another two areas, namely, risk and implementation. The five areas that were thereby identified were found to concur with good information management practice, and provide a basis for the development of information systems.

It is established that, to ensure that the appropriation of the funds is optimised, different areas of management thinking and the use of a formula should be considered. The process should not just include the actual transfer of the money, but also the assessment, planning,

monitoring and evaluation that lead up to the point when the transfer of the funds are made. The assessment, planning, monitoring and evaluation have an impact on the final amount that should be transferred and should be considered in a formula that will determine the amount for transfer. It is also found that the development of an information system will add little value if the process and the formula have not been identified. It is thus important to identify the transfer process and the formula first, before an information system is developed. The development of information systems should consider not just the actual transfer funding process, but also related processes including the strategic processes of the service user and service provider, performance planning and assessment, risk planning and assessment, system implementation, resource planning and assessment, the incorporation of a formula and an understanding of the basis for transferring the funds.



It is proposed that the framework presented here be known as the “financial determinants framework” as it aims to assess the amount of money that should be transferred by including all significant determinants that impact on it.

January 2007

## CONTENTS

<b>TITLE</b>	<b>III</b>
<b>KEY WORDS</b>	<b>III</b>
<b>ABSTRACT</b>	<b>IV</b>
<b>1. INTRODUCTION</b>	<b>1</b>
1.1 Background	1
1.2 Purpose/Rationale	9
1.3 Research Question	10
1.4 Aims	10
1.5 Literature review	11
1.6 Approach to the literature review	14
1.7 Research design and Method	16
1.8 Chapter Layout	17
<b>2. FUNDING LITERATURE</b>	<b>19</b>
2.1 Funding Introduction	19
2.2 Finance Overview	21
2.3 Finance Tools	22
2.4 The link between performance and financing	40
2.5 Criteria for assessing the provision of finance to an organisation.	40
2.6 Summary of financing	43
<b>3. PERFORMANCE LITERATURE</b>	<b>48</b>
3.1 Performance Introduction	48
3.2 Performance Overview	50
3.3 Performance Tools	52
3.4 Summary of Performance Literature and Tools	78
<b>4. STRATEGY LITERATURE</b>	<b>85</b>
4.1 Strategy Introduction	85
4.2 Defining strategy	85
4.3 Strategic principles	87
4.4 Stages of Strategic Process	88
4.5 The Five tasks of Strategic Management	89
4.6 Deciding on and evaluating a Strategy	89

4.7	Managing Strategy in a Diverse Environment	91
4.8	Strategy in the Public Sector	97
4.9	Benefits to strategic management	108
4.10	Strategy and performance	110
4.11	Summary of Strategy literature and tools	114
<b>5.</b>	<b>RESEARCH DESIGN AND METHODOLOGY</b>	<b><u>118-119</u></b>
5.1	Introduction	<u>118-119</u>
5.2	Research Design	<u>119-120</u>
5.3	Source Of Data	<u>122-123</u>
5.4	Instrument	<u>124-125</u>
5.5	Data Collection And Analysis	<u>127-128</u>
5.6	Bias	133
5.7	Realisation of the research	133
5.8	Summary	136
<b>6.</b>	<b>PRESENTATION OF FINDINGS</b>	<b>138</b>
6.1	Introduction	138
6.2	Findings Literature Review	139
6.3	Findings and interpretation of the Interviews	148
6.4	Summary of Interview Data	163
6.5	Second review of the literature (triangulation)	166
6.6	Participatory Action Research	171
<b>7.</b>	<b>CONCLUSION AND RECOMMENDATIONS</b>	<b>173</b>
7.1	Introduction	173
7.2	Research Problem and Aims	174
7.3	Broad Aim 1	175
7.4	Broad Aim 2	<u>179-178</u>
7.5	The questions that were raised at the beginning of the Thesis:	<u>185-184</u>
7.6	Recommendations	<u>186-185</u>
<b>8.</b>	<b>BIBLIOGRAPHY</b>	<b><u>188-187</u></b>
<b>9.</b>	<b>APPENDICES</b>	<b><u>198-197</u></b>

## LIST OF FIGURES

Figure 1: Focus of the Research. (Source: Author) .....	2
Figure 2: Organisations whose strategy impacts on that of the MDHS of the PGWC (Source: Author) .....	3
Figure 3: The Information Management Body of Knowledge (Source: Bytheway: 2004).....	9
Figure 4: Factors that determine financing according to performance (Source: Author) .....	12
Figure 5: Strategy as an additional area of concern Working Version (Source: Author) .....	13
Figure 6: The Financial Determinants framework Working Version (Source: Author) .....	16
Figure 7: The TQM model as adapted from Oakland J (2003) .....	56
Figure 8: The TQM framework adapted from Oakland J (2003) .....	57
Figure 9: The Balanced Scorecard (Source: Kaplan and Norton, 1996) (Extracted from <a href="http://www.balancedscorecard.org/basics/bsc1.html">http://www.balancedscorecard.org/basics/bsc1.html</a> ). .....	62
Figure 10: The Logical Framework (Source: Aga Khan Foundation, 1993) .....	74
Figure 11: Strategy for Diversified Company (Source: Thompson and Strickland, 1996).....	92
Figure 12: Strategy for Single Business Company (Source: Thompson A and Strickland AJ, 1996).....	94
Figure 13: Abbey National Financial and Investments Services co-ordination of change activities Adapted from: Evans et al., 1996, Broadbent (1999) .....	112
Figure 14: Measurement of programmes (Adapted from: Booth, 1998, Broadbent,1999)....	113
Figure 15: Planned Research Design (Source: Author) .....	<del>120</del> <u>121</u>
Figure 16: Actual Research Design followed (Source: Author).....	<del>122</del> <u>123</u>
Figure 17 Draft Formulaic Framework (Source: Author) .....	130
Figure 18: Final Research Design and method (Source; Author) .....	134
Figure 19: Graph on Responses to areas of investigation (Source: Author) .....	161
Figure 20: The Risk Management Process (Source: Valsamakis et al, 2000).....	167
Figure 21: Financial Determinants framework (Source: Author) .....	<del>180</del> <u>179</u>
Figure 22 Financial Determinants Framework 1 (Source: Author).....	<del>182</del> <u>181</u>
Figure 23 Financial Determinants Framework 1 Monitoring (Source: Author) .....	<del>184</del> <u>183</u>
Figure 24 Financial Determinants Framework 1 Evaluation (Source: Author) .....	<del>185</del> <u>184</u>



## LIST OF TABLES

Table 1 Performance Indicators, targets and relative weights (Source: Eichler and Kolehmainen-Aitken, 2001) .....	28
Table 2: Factors that influence Performance (Source: Hilliard, 1995).....	77
Table 3: Comparison of Agreements of Eichler and Kolehmainen-Aitken, England and the Department of Health (Source: Eichler and Kohlemanen-Aitken (2001), England (2000) and Department of Health) .....	82
Table 4: Finding of investigation (Source: Author) .....	158
Table 5: Table on responses to areas of investigation (Source: Author).....	160
Table 6 Detailed Aims .....	<del>177</del> 176
Table 7 Proposed Structure of Strategic Plans (Source: Technical Committee on Finance Proposed Generic Format for Strategic Plans of Provincial Departments - 11 July 2002) .....	<del>198</del> 197



## ACKNOWLEDGMENTS AND DEDICATIONS

**Dr John Frankish – Thank you for believing in me.**

**Dr Faried Abdullah – For believing in what you did not see.**

**Tony Joseph – The advice, assistance and faith in me.**

**Grafton Whyte – A model says a thousand words, but a person needs a framework to start off.**

**Nicky Roman – Although a picture says a thousand words, I value the assistance that you gave to create more than a thousand things. It took time, but I enjoyed the knowledge, structure and motivation that you provided**

**Sharon Damon – For just believing**

**Dr Bitalo – A thousand words, a million things, a burden for some, but hope you brings.**

**Yvette Goussard – Just being around**

**Michelle Esau – I believe that squash is the right sport to compare what you were to me. I could play the ball off the wall and the more it bounced, the warmer it became. I value your advice and support.**

**Andy Bytheway – A short road can become quite difficult if one is confronted with many problems on the road. I know that the road was long, but as much as the road was short, the challenges were many. Thanks for hanging in there with me.**

**Judy Hair – I sincerely valued your contribution**

**Munira Khatieb – There must be times when you felt that this road is going nowhere, I really enjoyed just talking to you. I will sincerely miss that.**

**(Librarians Ms Koen, Charles) Charles for such having such lovely, calm personality and being such a pillar in the library, especially when one feels that things are overwhelming. Ms. Koen for assisting with the investigations.**

**My Wife, Val and the Children Ethan and Tarquan for the constant reminders to finish this Thesis**

**Elaine Droomer for the transcripts**

**Jenny Hendry for the grammatix**

**Dr Ivan Toms – The struggle continues – Aluta Continua. May your soul rest in peace.**

**Mr Jooste - Sometimes blinkers cause people to be horses, but even a leash will not assist in directing them. There is none so blind as those that do not want to see. Thank you for seeing and believing.**

**All the others that I could not remember who assisted.**

UNIVERSITY of the  
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# CHAPTER 1

## 1. INTRODUCTION

### 1.1 BACKGROUND

The Provincial Government of the Western Cape (PGWC) provides funding to the Local Authority (LA) on an agency basis, to provide services to the community; one such service concerns primary health care. In terms of the constitution the DOH: PGWC is responsible for providing health services to the community. The Metro District Health Services (MDHS) a directorate in the DOH: PGWC provides primary health services in the Cape Metro, which is also referred to as the City of Cape Town. (Reference to the DOH: PGWC in this thesis is also a reference to the MDHS.) This service can, however, be rendered by another organisation, but the DOH: PGWC is still accountable for the service. The service provider is then paid through transfer payments for the service that should be provided. The responsibility for providing the service is devolved to the LA on an agency basis, and the LA is paid for the service through transfer payments. These payments are initiated by the submission of an expenditure report from LA to DOH: PGWC. A simplified version of these arrangements is shown below in Figure 1

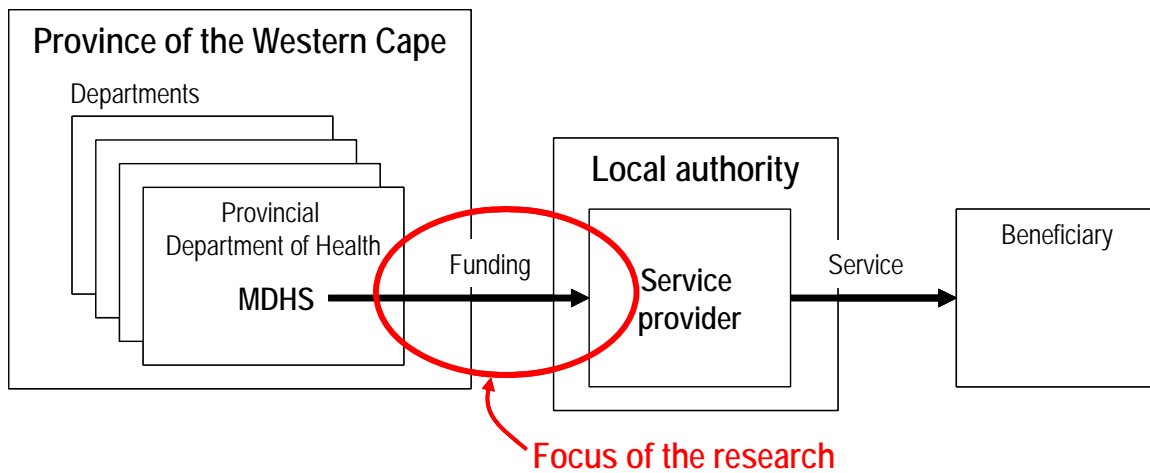
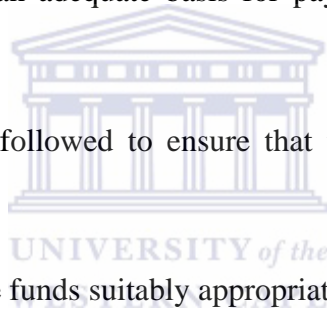


Figure 1: Focus of the Research. (Source: Author)

A number of questions were raised:

- Is an expenditure report an adequate basis for payment, or should a calculation or formula be used?
- What process should be followed to ensure that the required, planned and agreed outcomes are achieved?
- Once transferred, were the funds suitably appropriated?



The various organisations that impact on the health service, in the MDHS, are varied and are reflected in Figure 2. The organisations in yellow are the Global, Regional, National and Provincial Organisations that have an impact on the strategy of the MDHS, as well as on other transversal programmes such as transport and the environment. The blue are health organisations on a Global, Regional, National and Provincial level that have an impact on the strategy of MDHS alone (Source: author).

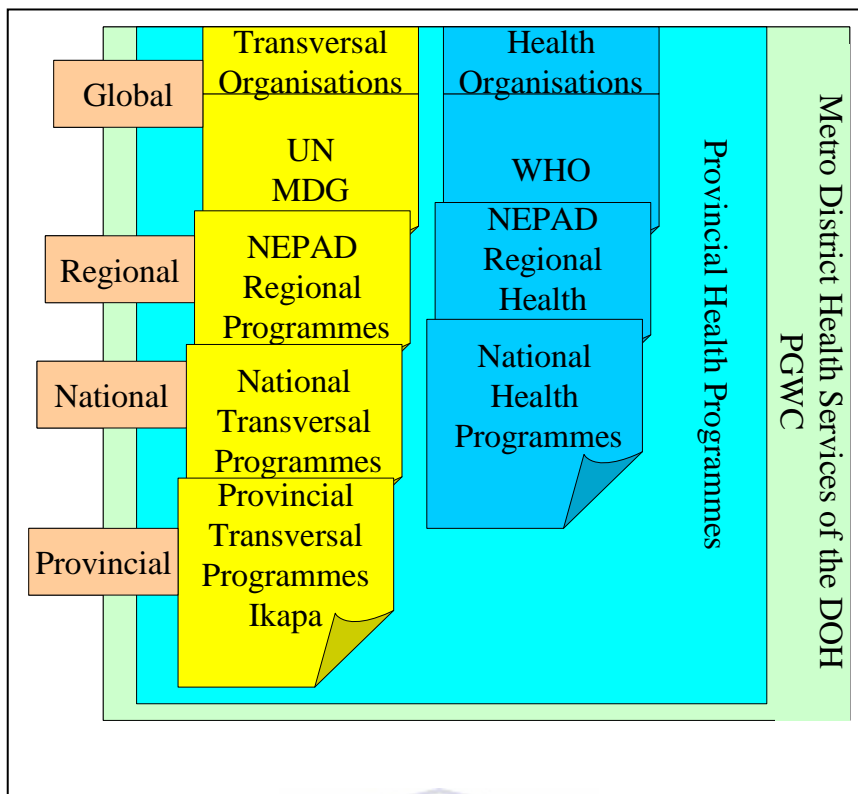


Figure 2: Organisations whose strategy impacts that of the MDHS of the PGWC (Source: Author)

MDHS is also influenced by the macro structure of the Provincial Health Department as all the structures have an influence on each other, in both directions. The MDHS always has an “upward” influence on other health programmes, because it is at the bottom or primary level of the structure, but in general, the influence of each organisation within the structure is evident inside and outside the structure, and outside the LA.. See Figure 25 in the appendix for the macro structure of the PGWC.

### 1.1.1 Definitions

#### 1.1.1.1 Funder

A funder is an entity that provides resources, normally money, to a service provider, for services to be rendered or services that have been rendered.

### **1.1.1.2 Service Provider**

A service provider is an entity that provides a service to a beneficiary or a recipient.

### **1.1.1.3 Primary Service provider**

The primary service provider is an entity that is primarily responsible to provide a service to the beneficiary or a recipient, i.e. the Provincial Government of the Western Cape, Department of Health (PGWC: DoH) is responsible for the provision of health service. The Department is thus the primary service provider of Public Health Services to the community of the Western Cape, in terms of the constitution.

### **1.1.1.4 Secondary Service provider**

The secondary service provider is an entity that is utilised by the primary service provider as an agent, to provide services to the beneficiary or recipient on behalf of the primary service provider. The PGWC: DoH uses the Local Authority of the Cape Metropole to provide primary health care services to the community of the Cape Metropole.



### **1.1.1.5 Beneficiary**

The beneficiary is an entity, normally person, who benefits from a service by a service provider. It can also be an organisation for example the PGWC: DoH who outsource services and receive the benefit of not providing the service directly, but via an agent. In this context, it is a person in the community that benefits from the service of the service provider. The beneficiary is also the receiver of the service.

### **1.1.1.6 Service user**

A service user is an entity that uses the services of a service provider. In this context, it will be an organisation i.e. the PGWC: DoH, Metro District Health Services.

### **1.1.1.7 Service recipient**

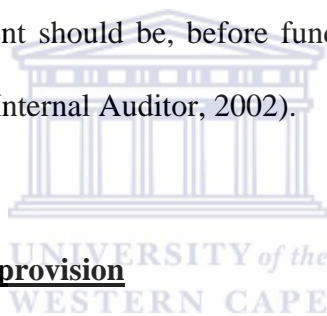
A service recipient is an entity that is the final receiver of a service that has been provided by a service provider. In this context, it will be a person in the community who receives the service that is provided by the secondary service provider.

### **1.1.2 Role of the funder and the service provider**

The LA is a health service provider to the community, on behalf of the MDHS in the DoH: PGWC, they are paid for agreed services by DoH: PGWC. This process is identifiable and the formula is a simple calculation of expenses, based on an expenditure report. The expenditure report does not provide information on the actual performance of LA. The expenditure report thus does not provide an adequate basis for calculating performance and does not lead to a transfer amount that is necessarily optimal or even appropriate, which would have to be based on performance. The expenditure report does not provide adequate control measures for performance and quality management, and it is questionable whether it provides an indication of the correlation between the extent and quality of the services that had been provided. The investigation by the internal auditor emphasises this disjuncture between payment for the service and the measured performance (Internal Auditor, 2002). This framework is discussed in Chapter 2 below. One of the concerns was that management is not properly informed. That is why this is a study of information management, to establish what information is needed to manage the transfer of funds to a service provider.

The provision of funds, by a funder to a service provider, has inherent risk. The risk becomes pronounced when the funder does not have control over how the money is being spent. The risk becomes distinctly pronounced when the funder does not know whether the funding, that was provided, is commensurate with the expected performance.

A funder is a person or an organisation that provides funds to another organisation, for the provision of services or products. The service provider is an organisation to which funds are supplied by the funder. The funding is for a fixed or undetermined term, but is provided on agreed terms and conditions. The service provider provides the recipient of the service or product with the service or product. The funder may, however, also be the organisation or person that should provide the service, but chooses to provide the service through an agent. The agent is then provided with funding, from the funder. The agent provides the service on behalf of the funder and is therefore regarded as the “secondary” service provider and the funder is regarded as the “primary” service provider. The funder, however, needs to make an informed decision on the management of transfer funding. The funder should have an idea of what the performance of the agent should be, before funds are transferred (Eichler, R and Kolehmainen-Aitken, R, 2001), (Internal Auditor, 2002).



### **1.1.3 Risks in funding service provision**

Decision making should be well informed and is therefore affected by the availability of information. Risk is a significant factor in decision making and information about risks and their probabilities is therefore needed. One example of a risk is the ability of the service provider to align its goals with the “end” service user, something that is out of the control of the funder but about which the funder needs information. An example of such a risk is where the service provider is managing the service without consideration of the available budget of the funder. The service provider then demands that the funder defray the expenses that were incurred. The funder thus does not have control over the expenses of the service provider and if the funder is compelled to defray the cost, the service provider poses a risk to the funder. It is prudent for a manager to make an informed decision about the transfer of the funds based on an understanding of the nature of the risks, the means to manage them, and the amount



that should be transferred. Taking the widest view, these are strategic issues. Balancing risks against the desired benefits and outcomes is a strategic matter, and demands that an organisation has agreed goals that are realistic, useful and achievable. Hence in adopting a strategic viewpoint an organisation needs to avail itself of strategic information (Broadbent, 1999).

In this way it became necessary to ask whether there was a strategic plan for health service delivery, whether that plan included proper arguments to outsource services and how to assess it for compliance with the expected outcomes and what formula is most appropriate to assess the level of funding that should be transferred.

These are the questions that led to this investigation.



#### **1.1.4 Information management in the Funding Environment**

There is extensive evidence of the importance of information in good decision making (Leitheiser, 2001, St Leger, Schnieden, Wallsworth-Bell, 1992) and in the present context that means information about needs, availability of services, service delivery and service levels achieved. Information should be collected and used in a balanced manner (Kaplan and Norton, 1996) Also, as has been argued here, information about the risks that companies encounter should be considered in conjunction with other information. Considering the risks and the expected outcomes for funding one need to question how appropriate it is to transfer funds without appropriate planning and information. Could this lead to high risk exposure to the resources of the service user if the service provider is unable to provide the service?

During this research the focus was on the process for managing transfer payments and the merits of a formula for determining the level of funding. What became evident through the research was that information does indeed play a pivotal role during the assessment-, planning-, performance measurement-, decision-making and transfer of the funds, but that attention is not necessarily accorded to information in practice.

Although the context for this work is in the Health Sector the focus of the work is on decision-making that leads to effective service delivery. Decision-making requires information, and this work is therefore based on an investigation of good practice in information management. The “Information Management Body of Knowledge” (IMBOK) is a framework that demonstrates how organisational strategies and the delivery of benefits are dependent on information systems and supporting information technology, and how the two worlds of business and information technology meet in the *business process* – here the specific process under consideration is that which makes decisions about transfer funding, and the IMBOK shows the dependency upon effective business strategy on the one hand and good information systems on the other. The framework provides a means to separate and organise some of the complex issues involved, and will be referred to later in the discussion of the results.

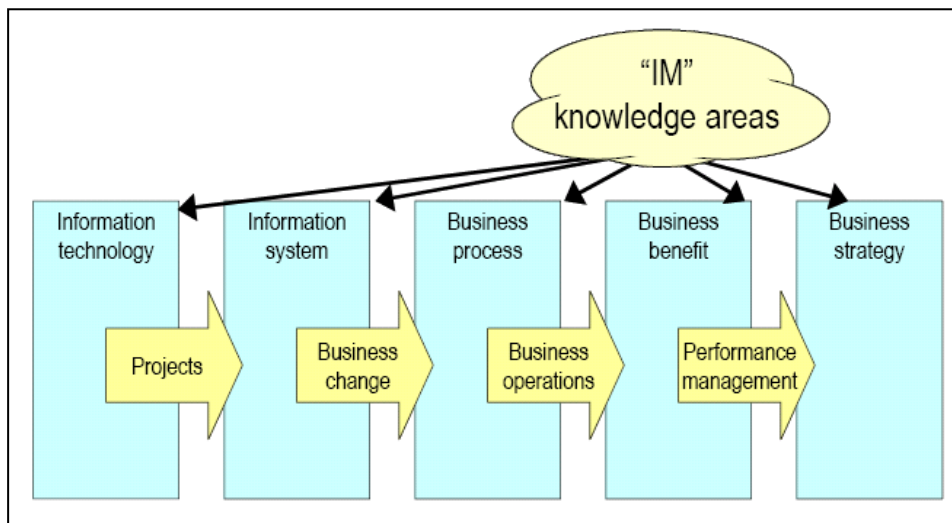


Figure 3: The Information Management Body of Knowledge (Source: Bytheway: 2004)

The similarity between the IMBOK model and the transfer funding framework centres around an organisation's wish to derive strategic business benefit. This benefit derives from having an appropriate strategy in place that recognises the benefit that is sought, addresses necessary changes to the business processes that are in place, ensures well aligned information systems supporting those changes and proposes appropriate technology infrastructure. The transfer-funding framework follows the same trend with the management areas that are linked. One of the links that is investigated here is between *performance* and *finance*.

## 1.2 PURPOSE/RATIONALE

The issue as to whether funds have been properly appropriated is a central one. While the use of expenditure reports has been the accepted practice, there is a strong argument that it would be better if more objective and measurable criteria can be used in a formula that will guide the level of funding based on the actual performance and inherent risks of the service provider. According to criteria within the formula, it could be decided whether a particular

service provider should be used or not and the level of funding that should be transferred based on desired outputs and outcomes, rather than to base the decision on a simple statement of expenditure.

Such a formula would lead to a process that could be transparent and subject to scrutiny. The challenge is therefore to lay the groundwork for a *best practice model* for the transfer of funds, and at the heart of the best practice; a formula that will indicate the most appropriate level of funding that is needed.

### **1.3 RESEARCH QUESTION**

The following research question summarises the aims and objectives of the project:

*Given the government sector context, can an information-based strategic framework be developed and applied that will indicate the optimum level of financing that a project or service should receive?*

### **1.4 AIMS**

The broad aims of the study were

1. To investigate the existence of a process and a formula that would indicate how much a service provider should be financed for a service, based on its performance.
2. To gain new insight into the central concepts of transfer funding.

The detailed aims of the study were:

1. To identify the process that is followed by PGWC: Department of Health when funds are transferred to LA, and to determine what formula is used (if any) to calculate how much money should be transferred.
2. To search for a best practice model or process that can be followed when a service user transfers funds to a service provider, and the existence of a formula or formulae that can determine the level of funds to be transferred.
3. To investigate the perceptions of managers in the MDHS of the DOH of the PGWC about the management of the transfer process, and the use of a formula when funds are transferred to LA.



A literature search was undertaken to lay the foundation for the empirical investigation and to establish the existence of best practice models, processes and formulae.

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## **1.5 LITERATURE REVIEW**

This work set out with broad objectives, to explore different areas of potential concern to the management of transfer funding and its dependency on information. The literature review was therefore exploratory and wide-ranging, so that much of this thesis is occupied by the literature review.

The starting point for the review was an informal but focused arrangement of ideas, relating the *financing* of service providers to their *performance*, by means of *factors*, as shown in Figure 4.

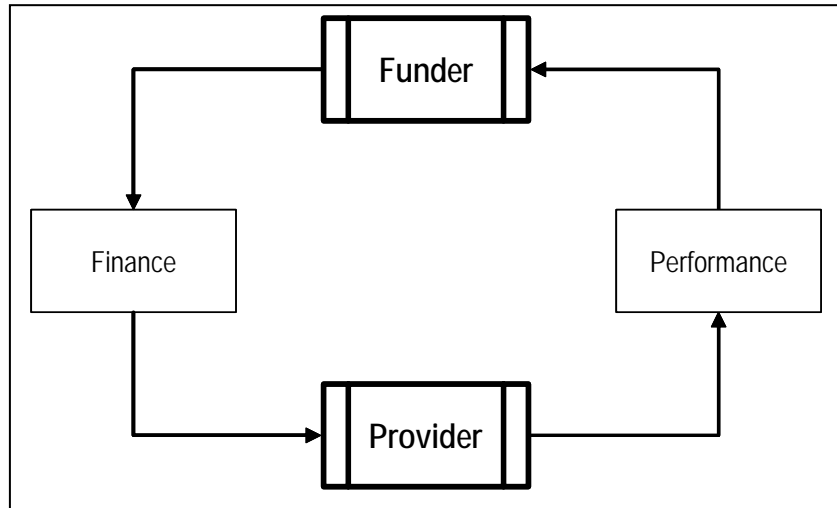


Figure 4: Factors that determine financing according to performance (Source: Author)

However, the scope of the literature review extended as the work proceeded, as will be explained. First it looked at *finance* and *performance* and sought to find theories or methods that would determine the relationship between the two – the factors that determine funding as a consequence of future and historical performance. The literature, however, revealed that performance does not develop on its own, other issues are involved. For example, some literature argues that performance is determined by strategy design (Broadbent 1999, Booth 1998). This led to further, extensive, investigation into strategy as a third area of important concern to the research – a foundation that determines aspects of financing and performance according to the context within which an organisation exists, its financial resources, and the targets that it sets according to stakeholder requirements.

The extensive literature review is justified in view of the breadth of the topic at hand and the exploratory nature of the work. Insufficient justification would have been accorded to the topic and the objectives if these three areas were not addressed appropriately and proportionately to their importance in the process. The framework evolved as depicted in Figure 5

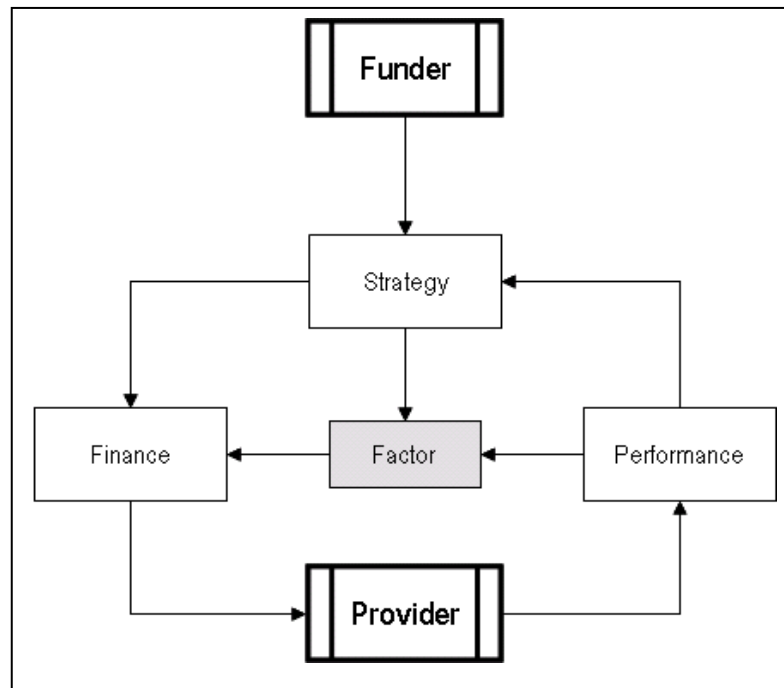
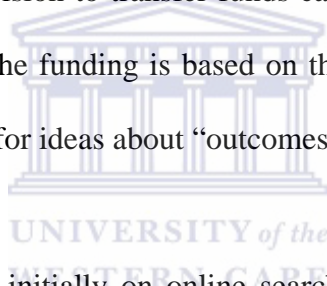


Figure 5: Strategy as an additional area of concern Working Version (Source: Author)

The evolved framework in Figure 5 identifies strategy, performance and financing as closely related so as to create a complete perspective of the transfer funding framework. Strategy determines the direction in which an organisation is heading. The direction in which the organisation should be heading is “summarised” through critical success factors (CSF). The CSF’s determine what the key performance indicators should be. The success of implementing a strategy is dependent on the available resources, thus the success of a strategy is feasible if the appropriate resources are accorded to implement the strategy, this includes finance (Rumelt, 1980, Mintzberg and Quin, 1991). Thus strategy should, logically, be designed to consider how feasible it is to execute the strategy within the available resources.

## **1.6 APPROACH TO THE LITERATURE REVIEW**

The initial aim of the study was to investigate information needs for transfer funding and how an organisation can “cost” a service. Because of the complexities of such a “costing” and the competencies required, the study evolved into a search for a formula and a best practice framework incorporating all the necessary concepts. It can be argued that a health econometrist would be needed for such an exercise, and that understanding the information that is needed requires an understanding of how the system functions. This is the argument that led to the actual investigation, to establish whether there is a link between performance and financing, and whether a decision to transfer funds can be based on the performance of the service provider or whether the funding is based on the service outcomes. This was the background to a literature search for ideas about “outcomes based financing”.



The literature review was based initially on online searching, but a follow-up search was undertaken in consultation with a specialist librarian, as will be explained.

The outcome of the online searching was determined by the choice of search term, of course. Using the initial search term “outcomes based financing”, there appeared to be little substantive material available. However, as time passed the search was broadened across the World Wide Web, and more general terms were used; the actual vocabulary of the current practice then became clear. The terminology more commonly used is “performance based finance” (PBF), “performance based payments” (PBP) and “pay for performance” (P4P). This clarity as to terminology only emerged later in the work, because it seems to be very recent terminology first in evidence only in recent years and not available at the commencement of the research. Because the research was in the health arena, it was decided



to focus on the work of writers on PBF in the health arena. The prominent writers on PBF in the health sector are: Hecht, Batson, and Brenzel (2004), Eichler and Kolehmainen-Aitken (2001), Goldfield, Burford, Averill, Boissonnault, Kelly, Kravis and Smithline (2005)

After extensive investigation by the author, evidence was not forthcoming on “outcomes based financing”. The assistance of the Librarian at the UWC library was sought, to assist with research for relevant academic articles. Substantive evidence of literature could not be found to support the wording of “outcomes based financing”. There were some articles available, but few papers were found on the topic of “outcomes-based finance” (OBF) in the health environment. The same material that were found through an internet search was found by the librarian. The material did indicate that in some cases funding is transferred based on the performance of a service provider, but what the link between performance and finance, performance and strategy, and strategy and finance is was not evident in any of the reported work. Hence, the general literature on strategy and performance management (in the private and public sectors) was used to identify the links, and to indicate how strategy and performance should be managed and what tools can be used to manage it.

The thesis is heavily dependent on the literature review, as the author endeavoured by that means to lay a strong foundation for the framework. The development of the framework was also not driven only from one area of the literature, but from examination of all the different areas. The literature review was used, as Brink (1996) indicates, to further refine the initial concepts - financing, performance and strategy - and to incorporate them into the new framework.

## 1.7 RESEARCH DESIGN AND METHOD

A variety of approaches to data collection were adopted, principally qualitative through unstructured- and semi-structured interviews. The data was then analysed using qualitative techniques. Hermeneutics was used as a method to analyse the interviews. The outcome of some of the areas investigated in the unstructured and semi-structured interview were tabulated and graphed to establish concurrence between the respondents. In addition, by virtue of working in the context of the research, and by discussing it with colleagues, participatory action research was a feature of the project. The way that strategy, finance, performance management all bear upon risks is shown in Figure 6.

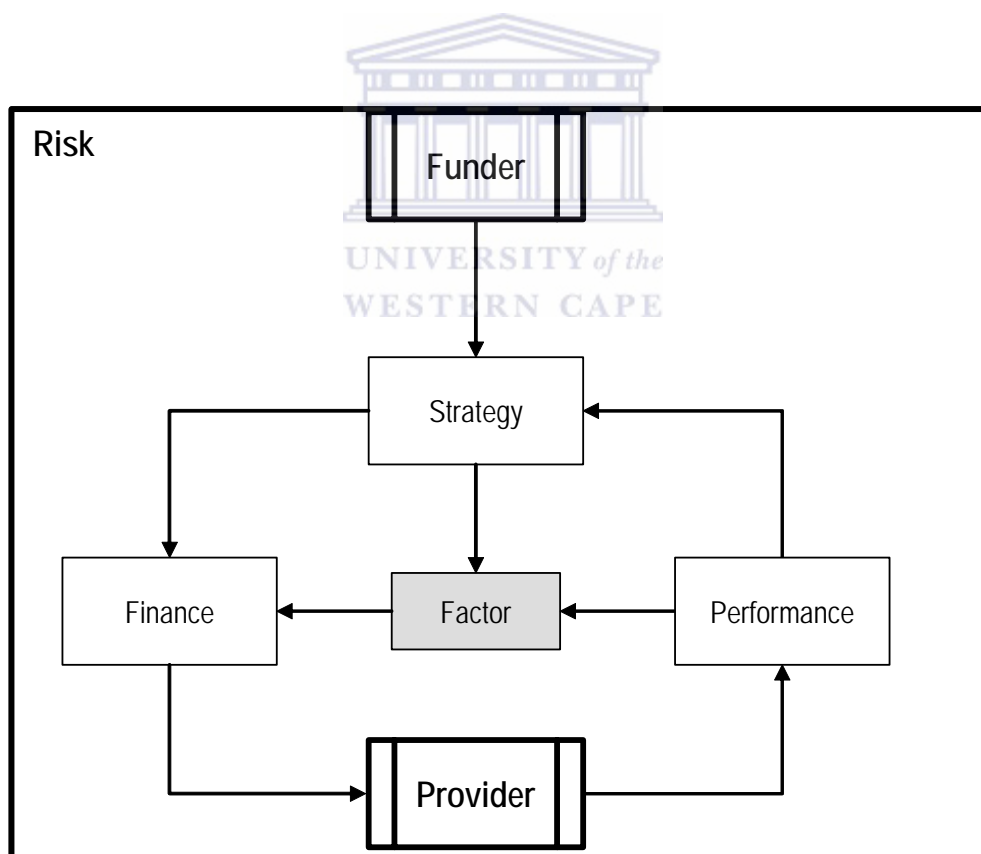
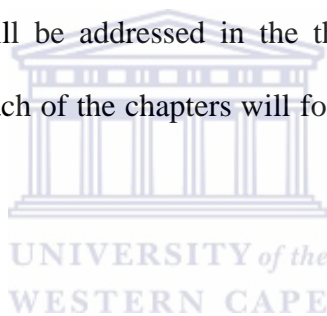


Figure 6: The Financial Determinants framework Working Version (Source: Author)

The figure that follows shows between the different areas in the research. The funder has strategy to either provide a service or to fund specific programmes or projects. The provider

align its strategy to that of the funder. The funder expect a specific performance for the funds that had been provided and as such the service provider has to perform within these expectations, if it agrees. There are however risks that either the funder takes in providing the funds, because the service provider might not be able to perform as expected and or waste the funds. Alternatively the funds might be insufficient for the service provider who then bears the risk of performance within the agreed budget. The thesis address the factor that should be used that balance the risk for the service provider and the funder, so that each would know what the possible funding could be, considering the expected performance, the funding envelope and the risks involved in funding and in providing the service. There are thus links between the funder and service provider, strategy, funding, performance and risk acceptance. The links between each area will be addressed in the thesis. The Chapter layout, which follows next, will address how each of the chapters will follow each other and the content of each chapter.



## **1.8 CHAPTER LAYOUT**

This chapter, Chapter 1, is introductory and explains some of the main features of the research and how it progressed. The issues emerging from the literature review are then addressed in the three chapters following: Chapter Two (finance), Chapter Three (performance) and Chapter Four (strategy).

Chapter Five addresses the research design and method. As indicated above, the research was qualitative and interpretative in nature. Triangulation was used to provide greater depth to the outcome of the research and evolved due to the outcome of the empirical research.

Chapter Six expands on the findings and the analysis. In qualitative research it is difficult to de-link the findings from the analysis as both go hand in hand. Both the findings and the analysis are thus addressed in chapter 6.

The conclusion and recommendations are addressed in Chapter Seven. In this chapter the empirical research and review of the literature are brought together to establish whether the research questions had been answered and whether further research is needed to establish a best practice model.

The next chapter presents the first portion of the three-part literature review, dealing with financial management issues.



## CHAPTER 2

### 2. FUNDING LITERATURE

#### 2.1 FUNDING INTRODUCTION

The basic assumption is that a decision has been made about a strategy, the performance targets has been set, a decision has been made about the service that will be rendered, by the organisation and which services will be outsourced or allocated to an agent. The next step would be to decide what criteria the outsourced organisation or agent should adhere to, before the service provider had rendered the service. In fact, a risk assessment of the service provider has to be completed. An organisation that wishes to deliver an efficient service has to set specific criteria that will guide the financier that is financing the project or service. Mere performance is not sufficient to warrant financing of a service, as an organisation needs to look wider than just at performance. For successful implementation of programmes, an organisation needs to funnel resources to what it, strategically, has decided to do. At the same time, it needs to outsource to organisations or procure an agent that supports its strategic objectives.

The focus of this chapter is on the process that takes place to manage the funding of a service provider. The chapter will, however first endeavour to contextualise the different methods of financing a health service and terminology that is used in this research. What this study is not addressing is the budgeting process, but rather how a financier decides whether a service provider, an external company or person, should be funded for a service. Alternatively, the investigation endeavours to establish what criteria are used to identify the most suited person

or company to provide an appropriate service to the service user or the recipients of the service?

Before one can really understand financing criteria or review the literature, one needs to contextualise certain terminology. These would be:

- What is a project?
- What is a service?
- What is financing?
- What is a service provider?
- What is outsourcing and agency?

### **2.1.1 Definition of a project**

The funding for a project is usually under capital projects and the exercise has a starting and a completion date. It is a one-off exercise (Green, 1999, Human, 2001). Project management is the system of processes, practices, technologies and knowledge that focuses on the development of a unique product or service. Each project has a clearly defined beginning, end, deliverable, cost, constraints, quality, objective and responsible team (Mitrovic: 2001).

### **2.1.2 Definition of a service**

The approach of Davidow and Utall (1989) in defining a service is from the perspective of the client or customer. “Customer service means all the features, acts and information that augment the customer’s ability to realise the full potential value of a core product or service”.

The perspective from which this study approaches a service is that of a unit or organisation involved in an activity of serving another. In the Funk and Wagnall’s Practical Standard Dictionary (1940), a service is defined as the act of serving, an agency for the

accomplishment of some generally or constantly needed work. The latter is the approach of the researcher.

### **2.1.3 Definition of Health Care Financing and Refinancing**

Financing is the process whereby funds are transferred from one authority, for example the Western Cape Provincial Administration (WCPA), to an entity inside or outside the first mentioned authority, which could be a Local Authority or an NGO [PFMA Chapter 5 (j)]. In terms of the Great Illustrated Dictionary of Readers Digest (1984), financing is “to supply the funds or capital for”. According to Goodman and Waddington (1993), health care financing refers to the resources that are used in providing a health care service. This could be in the form of money or any other resource like, personnel, technology, gifts or any soft or hard contribution that will assist in service delivery. Health care financing in effect is wider than just money. It refers to how money is being raised, how it is being spent and who controls the budget, funding or transfer of these funds to finance the delivery of a health-service. This research is interested in the process towards the final decision, i.e. transferring the funds, based on proper performance and assesment of the entity, to which the funds are transferred. The areas of investigation will be on transfer funding, the best practice models that are used, types of financing, with the focus on performance based financing when deciding on the transfer of the funds.

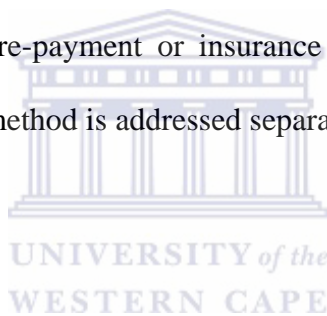
## **2.2 FINANCE OVERVIEW**

This chapter will provide an overview of the methods that are used to finance a health service. The investigation is mainly on transfer payments with a focus on outcomes based financing, outcomes based payments or pay for performance as a tool that is used to assess

whether payments for services should be granted. The method of funding a health service would be either through user fees, medical insurance or Medical Aid, as South Africans call it, and transfer payments that are made by a third party. Further investigation is made into the tools used in South Africa for managing public finances and specifically transfer-funding in the Western Cape, of which the Metro District Health Service was a Directorate.

## **2.3 FINANCE TOOLS**

There are different means through which a health serviced can be financed. According to Goodman and Waddington (1993), there are three principal methods of defraying health costs. It is through user fees, pre-payment or insurance or transfer grants. This research focuses on transfer grants. Each method is addressed separately, below.



### **2.3.1 User fees**

This would be the assessed fee that is charged for the user of the service or intervention. This might be for an array of services or products received to assist in improving the health status of the user. This could be for provider-client interface or consultation, pharmaceutical products like drugs, laboratory- or diagnostic tests or even consumables such as dressings.

### **2.3.2 Pre-payment or insurance**

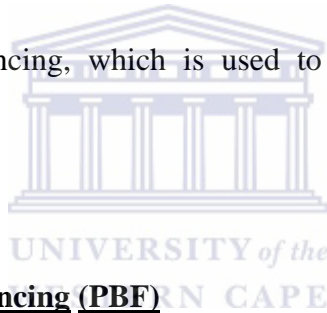
In the case of Medical Aid insurance or hospitals plans, the payment is provided by the medical aid scheme for the user of the health service. This will only happen if the user is a member of the scheme. Regular payments are made or invested for future costs. The member is entitled to receive treatment and the insurance or medical aid company will defray the cost.



This will result in the member not paying for the service at the time the service is rendered or the cost will be minimised.

### **2.3.3 Transfers**

Transfers occur when the cost for service provision is borne by a different entity than the entity that provides the service. The resource transfer could be in the form of finances, supplies, personnel or other forms of cost defrayment. The focus area of this thesis is in terms of funds that are transferred from the Provincial Government of the Western Cape to the City of Cape Town local Authority. Funding of the service could be partial or in full. One of the areas of transfer payments are performance based finances. The next section will address the area of performance-based financing, which is used to ensure value for money that is transferred.



### **2.3.4 Performance based financing (PBF)**

It took some time before sufficient information could be gathered on this topic. The search was done more on outcomes- rather than performance financing. Searches done by the University librarian on pay for performance yielded very few results that were usable. The search for outcomes based payments did not yield meaningful results. Papers on this topic addressed the issue of “payment for performance”, “performance-based financing” and “performance-based payments”. Performance based financing is a form of transfer payment, as the payment is based on a specifically agreed performance.

Hecht, Batson, and Brenzel, (2004) reported that the World Bank in their World Development report – Investing in Health and other policy documents during the early 1990

had advocated the idea of performance-based financing in 1993. Since then experimentation in the idea has taken place and the importance and challenges of performance-based financing as a potential has now been recognised. According to Eichler and Kolehmainen-Aitken (2001), the concept of performance-based financing is new in many countries and no single model exists for performance-based payments. Their contention is that the system should be designed to consider the organisational goals, capacity and constraints. One of the latest control measures is to pay for clinical performance. There is however a serious flaw in the implementation of this control-mechanism. One of the flaws is that the incentives to improve quality are minimal and thus will not influence improving the quality of care (Goldfield et al, 2005).

#### **2.3.4.1 Attributes of a successful Pay for Performance system**

According to Goldfield et al (2005) “the key attributes of a successful pay-for-performance system” are:

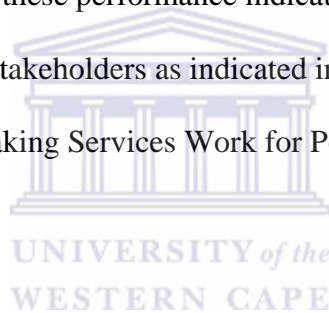
- Providers should run financial risk for quality care.
- A single cost- and quality score that is integrated into a single value (a quality-cost value). The scores should be objectively measurable and attributed to a specific service provider.

This cost score should be an indication of the service utilisation considering the case mix (the illness burden and complexity of the cases seen). The quality score is “... a measure of the structure, process and outcomes of treatment delivered...” This is measured against the specified case mix. Goldfield et al (2005) proposed that 20% of the compensation to providers should be held back as an incentive for quality care. The 20% should not be on top of current payments, but 20% of the current payments should be used.

#### 2.3.4.2 Reasons for interest in PBF

There is a growing interest in PBF. The reasons for this growing interest are three fold:

- The focus on outcomes and the measurable results for assistance provided for the outcomes.
- Political pressures to show value for money from stakeholders of provider organisations or countries. Stakeholders would like to see progress, which is measured through performance indicators.
- Linking finances to measurable objectives to measure changes in health status as well as coverage. The need for these performance indicators are also to make service providers accountable to stakeholders as indicated in the theme of the World Development Report – making Services Work for Poor People in 2004 (World Bank, 2004).



According to Hecht et al (2004), PBF is being widely tested on several levels of the health care system namely:

- Health care service providers like non-governmental organisations (NGO's) and the private sector, are being financed by governments of developing countries, to provide essential services to poor communities
- Funds are transferred from specific levels of government to local government to provide health services
- Funding is released by donors, to recipients in the developing countries, on the achievement of key health targets.

### **2.3.4.3 Countries where PBF has been implemented**

Countries that have had experience with PBF through NGO's are Haiti, Guatemala, Afghanistan, India and Brazil and will be discussed briefly, below.

#### **2.3.4.3.1 Haiti**

The United States Agency for International Development (USAID) implemented a project under the auspices of the Management Sciences for Health (MSH); named "Haiti Sante 2004" The NGO, initially, received a negotiated budget for expenditures. They had to submit their proposed annual budget, plan, and information on expenditures. They were reimbursed, based on submissions of their verifiable monthly expenditure reports. In a survey done during 1997 it was established that the cost per visit for the NGO's varied considerably. The NGO's were not motivated to change their management or operations to improve efficiencies in the organisation. The NGO's were also not motivated to expand services or improve service-quality, as the finances were not linked to measurable results.

Haiti Sante provided technical assistance and funding to the operations of 33 NGO's. They decided to pilot a new approach towards payment, based on the results of the NGO. The project was planned and negotiated with the NGO's and then implemented. The plan exposed the NGO's to "... some financial risk... ", but also the potential of bonuses. The NGO's were allocated 95% of their original budget, with an additional 10% of the original budget, for achieving the performance goals. There was agreement on the indicators between Haiti Sante and three NGO's that piloted the project. Indicators were focused on improving the health status or impact of the recipients of the service and on client satisfaction (See Table 1). An independent research firm was used to measure the baseline- and end results weights (Eichler

and Kolehmainen-Aitken, 2001). The results from the project were very promising. There were improvements in certain areas whilst in other areas some challenges were identified, as per Table 1. The NGO received more revenue than they would have received if they had kept to the old systems of submitting a report that did not focus on results orientated financing.

The new model inspired the NGO's to "... examine their models of service delivery..." weights (Eichler and Kolehmainen-Aitken, 2001) and resource utilisation, consider new means to improve service quality, cost reduction and to increase their revenues. The managers endorsed the flexibility of the budget. They also noted that the motivation of staff increased and that a "... spirit of innovation..." was created. The continuation of the model found enthusiastic support from the managers' weights (Eichler and Kolehmainen-Aitken, 2001).

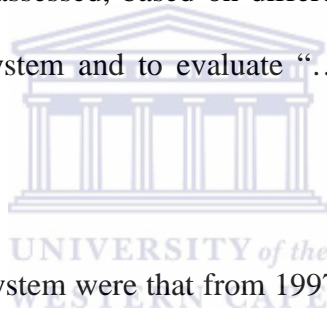


Table 1 Performance Indicators, targets and relative weights (Source: Eichler and Kolehmainen-Aitken, 2001)

Indicator	Target	Relative weight
Percentage of women using Oral rehydration therapy to treat cases of diarrhoea	15% increase	10% of bonus
Full vaccination coverage for children 12 to 23 months old	10% increase	20% of bonus
At least 3 prenatal visits	20% increase	10% of bonus
Reduction in the level of discontinuation rate for injectable and oral contraceptives	25% reduction	20% of bonus
Number of institutional service delivery points with at least four or more modern methods of family planning; and number of outreach points with three or more modern methods.	Institutional service delivery points with 4+; 50% of outreach points with 3+	20% of bonus
Reduction in average waiting time before providing attention to a child (in hours and minutes from arrival to beginning of attention)	50% reduction	10% of bonus
Local government organising committee (UCS) participation; coordination with Ministry of health	UCS defined	10% of bonus

#### **2.3.4.3.2 Guatemala**

The government in Guatemala started a program to extend basic health services to the community, after the war in 1997. In 2000, there were 89 Non Governmental Organisations (NGO's) that provided healthcare to about 3.7 million of the 14 million people of Guatemala, fewer than 137 separate contracts. In terms of the contract, the services were provided for maternal and child health, prevention and treatment of diseases, which included malaria at \$8:00 per person that attended the service. The remuneration was in cash, but also in kind. The latter was in the form of vaccines or medicines. The service provider was paid on a quarterly basis once the available information had been "... checked and verified." The organisational performance was assessed, based on different indicators. A private firm was used to develop a monitoring system and to evaluate "... the accounting practices of the NGO's."



The benefits of this contractual system were that from 1997 to 2001, immunisation rates rose from 69% to 87%. Obstacles that they had to overcome were the perceptions of stakeholders. Government health workers regarded this as a form of privatisation of health services. NGO's were concerned that the Government expectation of performance would not meet the funding from Government. The Government made advance payments available to NGO's and payments on a quarterly basis, in time. This boosted confidence and improved the relationship between the public and private sector.

#### **2.3.4.3.3 Afghanistan**

In Afghanistan, the Government contracted NGO's to run health centres. The NGO that achieved a specific target would then receive an additional 10% to their baseline subsidies.

#### **2.3.4.3.4 India**

In India, a similar programme was launched with the Tuberculosis (TB) programme. NGO's and Private organisations were funded according to their performance. Laboratories were paid for sputum that was tested and TB detected. NGO's and Private Doctors received a payment for each patient that was cured in the directly observed short course therapy (DOTS) programme. This caused the case detection rate to improve by 20% in the Kannur district of Kerala.

#### **2.3.4.3.5 Brazil**

Hecht et al (2004) indicated that the Brazilian Government made per capita transfers to local authorities in Brazil, if there was a "... planned increase in certain services, ..." The services that were specified were safe delivery of babies in low income areas, monitoring of the nutritional status and growth of infants and treatment of specific illnesses in poor children. An example of an indicator is that 40% of babies should be delivered in a maternity facility. If the Local Authority reached the pre-agreed to targets, it becomes eligible for financial transfer in the future. Should they however fail to reach the targets, the funds were reduced and other actions taken to remedy the situation.

#### **2.3.4.4 PBF and Donor disbursements**

In projects funded by the World Bank, Hecht considers that the approach that was used made drivers of the Health programmes responsible for successful performance. This included Haiti, Guatemala and most of the countries as mentioned above. (Hecht et al, 2004) (World



Bank 2003 cited in Hecht et al 2004). The World Bank made funds available for buying of vaccines. As soon as the vaccines had been bought, delivered and administered another trust fund paid off the interest and principle loan amount. The loan is in effect reduced to a grant. An example of the latter is that for each additional child that is immunised, countries received \$20:00 per child. The Global Alliance for Vaccines and Immunisation had a grant assistance programme that was geared towards organisational performance. It provided assistance with commodities that assisted the service providers in the countries where the need materialised. This had been in the form of specific vaccines, new products and safe injections. Based on improving the level of the agreed performance, funds had been released for each additional child above the agreed performance.

#### **2.3.4.5 The benefits of PBF**



- Organisations “... are encouraged to examine their institutional culture...”
- Rewards for the organisation are based on effectiveness and performance
- The payment system is focused on the result of the operation
- The service provider is focused on achieving the results in an effort to receive the next portion of the funding.
- It provides the base for generating monitoring and evaluation data, to plan strategically and for operationalisation of services.

#### **2.3.4.6 Summary of PBF**

PBF is an area that is ventured into by service users and service providers, who recognise that funds are limited but also that payment should be based on quality performance or outcomes.

No single model exists for this type of payment. What is notable is that there is a process in how PBF is managed. The process is:

- There should be a proper contractual agreement in place.
- Monitoring and evaluation systems need to be established.
- A party external to the contractual agreement does the auditing of the agreed performance, to exclude bias.
- There are sufficient processes in place to allow for rewards, but also for action when the agreed targets are not met.

The formulae that were used in the models differed, but a commonality was that a certain percentage of the money was used towards achieving the pre-agreed targets, whilst another percentage of the money is available for above average performance. One model proposed that the existing funds should be split into 80% for expected performance and 20% for above average performance. Another model suggested that 95% of the existing funds should be used for actual performance and that a further 10% be used for above average performance (leading, in effect, to a 5% increase overall).

There are however hurdles that should be overcome, which are:

- Refinement of the contractual agreement, the indicators, the information needs and the monitoring and evaluation tools.
- Capacity needs to be developed in terms of human resources, but also knowledge in the application of performance financing and the contractual agreements.
- According to Hecht et al (2004) perceptions that PBF is more of a punishment than a rewarding system needs to be changed.
- Hecht et al (2004) et al indicated that PBF is more likely to expand due to the concerns about health outcomes and the quest for better efficiency and effectiveness.

### **2.3.5 Financing in the South African Public Sector**

Public Financing in South Africa must be distributed in accordance with the Division of Revenue Act (DORA) and managed in terms of the Public Finance Management Act of 1999 (PFMA). The DORA and PFMA, with the National Treasury Regulations (NTR), regulate the transfer of public finances; for the purpose of this study the Health Act of 1977 (Act 63 of 1977) might also apply, as determined by section 20(1) of the Health Act. The new Health Act has replaced the Health Act of 1977 in 2003. In terms of the new Health Act, all primary level health services are the responsibility of the Provincial Government. The Provincial Government thus had to take over all the primary level health services. The process of taking over responsibility of all primary health services was named the Provincialisation of the primary health services. At the time of the investigation the full Provincialisation of the service has not taken place in the City of Cape Town, however. The Provincialisation in the Western Cape has only taken place in the rural areas of the Western Cape. This research will, however, not address the new Health Act, because when the study was started the old act still prevailed.

In terms of the PFMA, strategic plans should be linked to the budget and must be tabled in Parliament for discussion. The strategic plan must also include detail of what should be in the plan, for it to be accepted. Performance measurement in terms of the PFMA is based purely on financial outcomes whereas the *The Public service Act of 1994* as amended and the *The Public Service regulations of 2001* as amended is based on service delivery. The latter will be discussed below under 4.8.3.1. The reports that should be drafted in terms of the PFMA, are based on the efficiency of the organisation, whilst the PSR examines the effectiveness of service delivery. The two regulations should thus be read in conjunction with each other, to

develop a strong, efficient and effective plan, performance measuring system and reporting process.

### **2.3.5.1 The Public Finance Management Act**

The South African Public Finance Management Act (PFMA) of 1999 is an outcomes-based budgetary framework, as plans need to identify the outcomes of service within specific budgetary constraints (PFMA Section 4.1). In terms of Section 38(1) (i) of the PFMA the accounting officers of the department must make sure that the PFMA is complied with when funds are transferred from one department to other entities.

In terms of Section 38(1) (j) of the PFMA, the transferring authority must ensure that the organisation to which the funds are transferred, implements an “... effective, efficient and transparent financial management and internal control system”. The organisation to which the funds are transferred must provide written assurance. If such assurance cannot be provided, the transfer of the funds should be subject to specific conditions and remedial actions that will be implemented to ensure the implementation of effective, efficient and transparent financial and internal control systems.

The reporting responsibility of an accounting officer on departmental funds that are transferred is governed by section 40 of the PFMA. Section 40 (4) (c) directs an accounting officer of a department to submit the following within 15 days of the end of each month:

- Information of that month
- Projected expenditure for the remainder of the financial year

- An explanation of variances and a summary of the steps that will be embarked on to ensure that the projected expenses or revenue is within the budgetary constraints.

A regulatory framework for strategic planning supports the PFMA (11 July 2002). The generic content of strategic planning, according to the National Treasury Department, is that it must:

- Be tabled in Parliament or the relevant legislature at least 7 days before the budget vote of the department is discussed.
- Indicate the plans for three consecutive years and be consistent with the budget estimates of the institution.
- Include the mandates that indicate the output deliverables.
- Include references to policy and legislation that influences spending.
- Include measurable objectives, expected outcomes, programme outputs, indicators and targets of the programmes.
- Include details of proposed acquisitions, capital investments, rehabilitation and maintenance of fixed assets and management of financial assets and liabilities.
- Include projections of income and receipts from the sale of assets.
- Include detail of the service delivery programme.
- Include detail of the information technology acquisition or expansion in reference to an information technology plan.
- Include the requirements of Chapter 1, part III B of the Public Service Regulations (PSR) of 2001, which indicate the strategic planning according to the Public Service Regulations.

The strategic plan forms the basis for annual reports as required by sections 40(1) (d) and (e) of the act. Performance evaluation, monitoring and corrective action should be done in accordance with section 27(4) read with 36(5) of the PFMA and reported on, on a quarterly basis.

#### **2.3.5.2 Division of Revenue Act (Act no 1 of 2001) DORA 2001**

The duties of the Provincial Transferring Officer are regulated by section 16 of the DORA. Section 16 (1) of the DORA read in conjunction with the reporting needs of section 40 (4) (c) the PFMA direct that the Provincial Transferring Officer must submit a report, within 15 days of the end of the month, with the following information to the National Transferring Officer, in a format determined by the National Treasury.

- The funds transferred to a municipality up to the reporting month
- The funds delayed or not transferred to a municipality up to the reporting month
- Actual expenses made by the municipality in respect of the allocation made and
- Other issues as determined by the National Treasury.

It is regulated in terms of section 16(2) of the DORA that when the Provincial Transferring Officer intends to make a transfer not listed in the schedules of the Act, it should be published in the Provincial Gazette in a format determined by the National and Provincial treasury.

#### **2.3.5.3 Division of Revenue Act (Act no 1 of 2001) DORA 2005**

The duties of the transferring provincial officer are explained in the DORA 23(1) which reads as follows:

23. (1) A Transferring Provincial Officer must, as part of the report contemplated in

section 40(4)(c) of the Public Finance Management Act, in respect of any allocation to be transferred to municipalities, and in the format determined by the National Treasury, submit, within 20 days after the end of each month, to the transferring national officer and the relevant treasury, information on—

- (a) The amount of funds transferred to a municipality in the month reported on and for the financial year up to the end of that month;
- (b) The amount of funds stopped or withheld from any municipality in the month reported on;
- (c) Actual expenditure incurred in respect of that allocation; and
- (d) Such other issues as the National Treasury may determine.



#### **2.3.5.4 Health Act 63 of 1977**

This act did not per se regulate the financing for all departments in South Africa, but it did regulate which services had to be funded by the Department of Health and the conditions under which funds may be transferred. In terms of section 26 of the Health Act 63 of 1977, read in conjunction with section 20 (1) d, funds could be transferred to Local Authorities for the provision of specific services. This was clarified by guidelines in a circular, sent during August 1989, circular reference 35/13/B.

The following are areas for which expenses could be claimed:

- Capital expenses for fixed property, excluding the expenses of buying the property, property tax, garages, carports or awnings, parking areas, the layout and improvement of gardens and air conditioning.
- Mobile clinics

- Operational costs and
- Staff expenses for primary health care services.

As can be noted only specific services were funded in terms of the Health Act. The funds could thus only be transferred if these services had been rendered.

### **2.3.5.5 Transfer Payments in the Western Cape Province**

The transfer payments to LA should be managed in terms of specific legislative requirements. These Acts has been mentioned above, under public financing in South Africa. These legislative requirements are encompassed in the PFMA, the Division of Revenue Act (DORA), as enacted each year and the Health Act 63 of 1977. Certain guidelines were also given in an auditor's report that became available early during 2003.

An internal audit was done on transfer payments, within the Department of Health. This report was signed on 19/12/2002 by the Chief Director of Finance and distributed during the same month for comment. The objective of the audit was to evaluate the adequacy of the system of internal control under the following:

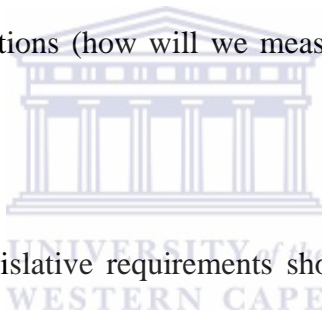
- The adequacy of control activities and monitoring systems in relation to the reliability and integrity of information and
- Compliance with laws, policies and regulations, in terms of transfer payments.

The general assessment was that the system of receipt and payments of claims were inadequate (Internal Audit, 2002). Monitoring of reliability and integrity of information was also regarded as inadequate. "The current monitoring system to ensure the reliability of information or detecting unreliable information was inadequate." There was a lack of alignment of the strategic plans of the District Health Service with that of the Provincial



Department of Health and a lack of risk analysis due to internal and external factors. One of the recommendations was that a results-based management and accountability framework (RBMAF) should be developed that deals with the accountability, evaluation and reporting requirements. The RBMAF should measure performance on an ongoing basis against the key results commitments. The RBMAF should consider the following:

- “The main activities of the programme (what will be done)
- Clients or target populations (who will benefit)
- Expected results (what will be achieved)
- Performance indicators (how will we objectively know)
- Data sources (where will we get the information)
- Methodological considerations (how will we measure and analyse and how will we cost)



The report indicated that the legislative requirements should be considered, a proper plan developed, performance indicators identified, a risk analysis drawn up and methods of control should be in place when funds are transferred. When the decision is made to transfer funds it should be based on information with integrity and that is reliable. All this should be done with due diligence in the management of the transfer process (Internal Audit, 2002).

The DORA, PFMA and the Health Act of 63 had thus regulated the management of public finances, on a National Level. The Internal Auditor of the Department had also provided directions on a Provincial level in the Western Cape through an investigation. There is extensive indication through the general literature and the South African legislation and regulations that funding should be linked to performance.

## **2.4 THE LINK BETWEEN PERFORMANCE AND FINANCING**

The basic framework for establishing performance of a financial system is measuring the benefits (outcome) in relation to the cost (input). In the PFMA the accounting officer is held responsible for financial performance or health outcomes [sec 38 (1) (i)]. This ensures accountability of the departmental head for outcomes-based budgeting. The idea of outcomes-based budgeting is to ensure achievement of programmes as laid down by the legislature (Meyers, 1999). The performance indicator provides the standard or norm for measuring the achievement in terms of efficiency, effectiveness and the ultimate benefit to a service receiver.

Performance measures, in relation to finance, are thus used to establish what the budget of the organisation should be and is the norm or standard that is used to establish whether the outcomes was achieved in terms of efficiency and effectiveness. Another link is to measure whether a benefit had been provided to a client within the allocated budget. In this thesis, the link that is investigated is the level of financing that should be accorded to a service provider, based on its performance. Before an agreement is reached on who the service provider should be, for a specific service, it would be appropriate to make an assessment of the service provider.

## **2.5 CRITERIA FOR ASSESSING THE PROVISION OF FINANCE TO AN ORGANISATION.**

For the purposes of the thesis, it was decided to access the finance criteria of financial organisations that have their details on the Internet. This proved to be an easier and cheaper way to access detail on criteria for financing an applicant for funding. Different banks and

financial institutions were contacted, but it proved difficult to find a person in the organisation that was prepared to provide the information.

This was not an extensive research into criteria that were used for financing. The information was needed to set a baseline for the development of the framework. Finance criteria from different organisations, extracted from the Internet were those from the following organisations:

- Berens & Company Investment Bankers
- Juneau Economic Development Council
- Seedfinancing
- World Summit on Sustainable Development

Berens & Company Investment Bankers identified factors such as sales volume, transactions, type of business/industry, characteristics of the business e.g. experienced management, positive cash flow, established market and growing market niche as some of the criteria that were needed to evaluate whether funding should be provided to an applicant for funding. They also identified geography, finance needs, organisational structure, current return, ownership and exit as additional criteria that were needed to establish the viability of providing funds to an applicant.

Juneau Economic Development Council considered factors such as a dedicated and experienced management, past performance, market strengths, current economic viability of the organisation, high potential for profitability and high potential for growth as issues that should be considered in an application for funding.

The Seed-financing organisation contended that business growth potential, management quality, technology intensity and innovation, an entrepreneurs willingness to take risks and ecological compatibility should be focused on when an application for funding is considered.

At the World Summit on Sustainable Development certain criteria were identified by the e-council as criteria for assessing the potential financing of an organisation, these are the social impact, financial condition of the borrower and additional criteria. The criteria are expanded on below:

### **2.5.1 Social Impact**

- Creating opportunity for community control or local self-determination.
- Creating alternative approaches for the production of goods and services.
- Target women for employment, management and ownership.
- Empower low-income persons, to create, own and manage enterprises.
- Reinvest in decaying urban areas or revitalise urban areas.
- Demonstrate a stewardship approach to land, water, air and other resources.
- Contribute towards integration (racial, urban-rural and inner city-suburbs)

### **2.5.2 Financial condition of the borrower**

- Risk potential in different businesses
- Acceptable range of interest
- Length of loan
- Amount of local support for the project
- Innovative aspects of the enterprise

- Total financial needs of the project
- Marketing potential
- Adequate financial systems
- Cash flow needs
- Available collateral
- Debt or equity

### **2.5.3 Additional criteria**

- Overall diversity within the alternative investment portfolio
- The leveraging potential of the loan given by the lender
- Contact of the lender with the project

The criteria that were used by the four organisations can be summarised as assessing the organisational competencies in terms of:

- The Internal competencies of the service provider, which may include financial strength, management experience and the normal line of business of the organisation and the
- Impact that the organisation will have on the external environment of the organisation.

## **2.6 SUMMARY OF FINANCING**

Health-care financing can be acquired from various sources (Goodman and Waddington, 1993). One of the sources of acquiring funding is through transfer payments. Transfer payments occur when the cost of the service is borne by another entity, called a service user,

than the entity that provides the service, namely the service provider. Similar cases are evident in places like Haiti, Guatemala, Afghanistan, India and Brazil. In these latter places the service user, based on the performance of the service provider, transfers funds. The model is called pay for performance, performance based payments or performance based financing. How an organisation creates benefit, cannot be removed from the finance that it procures, creates, develops or receives. Against this background it can be accepted that the expected outcome that should be achieved with the funds is a specific benefit or value and it is expected of the service provider to provide the benefit to the service user and the recipient of the service .

According to Eichler and Kolehmainen-Aitken (2005) no single model is in place for performance-based payments, thus substantiating the need for this investigation. PBP is a new development and there is a need for implementation. The models comprise certain processes and also a formula that is used to decide how much a service provider should be paid for expected service and above average service delivery. The process for implementation is that:

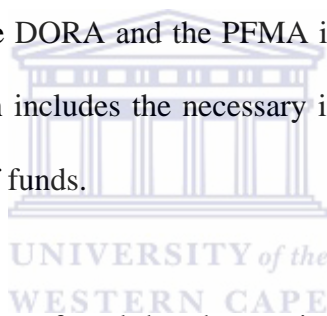
- A negotiated agreement on the goals and targets should be in place,
- A written service level agreement should be concluded which should address:
  - The expected outcomes or performance that should be achieved,
  - The method or mode of payment, which could be in monetary terms, goods or services,
  - The incentives for above average performance and the result of below average performance,
  - How the organisational risk profile will be improved,
  - The roles and responsibilities of the contractual parties

- Monitoring and evaluation systems should be established
- A party, external to the contractual agreement, does the auditing of the agreed performance
- There are sufficient processes in place to allow for both rewards as well as interceding actions when the agreed targets are not met.
- The reports are based on the agreed goals, targets and strategic plans.

The formulae that were used by the organisations differ from country to country. It was proposed by Goldfield et al (2005) that 80 % is paid for expected performance and 20% of the compensation to providers be held back as an incentive for quality care. The 20% should not be on top of current payments, but 20% of the current payments should be used. Other models also proposed a percentage for expected performance and an added % for above average performance. In another model the service provider was paid for each client that contributed to the overall target that should be achieved. According to Goldfield et al (2005) “the key attributes of a successful pay-for-performance system” are that providers should run financial risk for quality care. It should address a single cost- and quality score that is integrated into a single value (a quality-cost value). The scores should be objectively measurable and attributed to a specific service provider. The emphasis here is that the service provider should run the overall financial risk for mal-performance in terms of the outcome, partial performance in terms of the outcome and poor performance in terms of quality

In South Africa the transfer of funds is influenced by certain regulations. In terms of the regulations certain processes and reporting mechanisms should be in place. Some recommendations were made in an audit report of the Chief Directorate of Finance of the PGWC on how the transfer of funds should be managed. The National Department of Health

also recommended that a SLA should be in place between the contractual parties. The latter will be addressed under performance management. The PFMA, DORA of 2001 and 2005 and the Health Act of 1977 influenced the transfer of funds. These regulations must be read in conjunction with each other. The Health Act expounded on which services the service provider should provide, whilst the PFMA and the DORA address the management of the funds and the reports that should be submitted by the transferring- and accounting officers, as well as the formats of the reports. The transferring authority should get written assurance from the service provider that the service provider has an “...effective, efficient and transparent financial and internal control system.” The PFMA also allows for implementation of specific conditions and remedial actions if the written assurance cannot be given. A necessary element in terms of the DORA and the PFMA is that reports should be submitted by the transferring officer, which includes the necessary information for the service user to make a decision on the transfer of funds.



In terms of the auditors report it was found that the monitoring and reliability of information was inadequate, there was a lack of alignment of the strategic plans of the MDHS:PGWC and the Provincial Health department of the PGWC and there is lack of risk analysis due to internal and external factors. The recommendation was that a Results Based Management and Accountability Framework (RBMAF) should be developed. The RBMAF should measure ongoing performance against key result commitments. The RBMAF should consider the main objectives of the programme, clients or target populations, expected results, performance indicators, data sources and methodological considerations for measurements and analysis.

An investigation into the criteria that funders use to finance service providers revealed that different organisations applied different criteria to identify whether they would fund an



organisation for their activities. These criteria focussed on the impact on the external environment (e.g. ecology compatibility, market strength, and technology intensity and innovation), the ability of the organisations to deliver (e.g. past performance, willingness to take risks, management quality, potential for profitability or growth, characteristics of the business, etc.) and the impact that it will have on the external environment. In applying criteria for financing an organisation, one should thus establish the impact that the business will have on the external environment and vice versa and the characteristics of the internal organisation to deliver the expected service.

The benefits of the PBF models are that:

- Organisations “... are encouraged to examine their institutional culture...”
- Rewards for the organisation is based on effectiveness and performance
- The payment system is focused on the result of the operation
- The service provider is focused on achieving the results in an effort to receive the next portion of the funding.
- It provides the base for generating monitoring and evaluation data, to plan strategically and for operationalisation of services.

What is agreed on in the literature, is that the risk of performance should be borne by the service provider. It is, furthermore, indicated that the funding for the service provider should be based on the performance. What is not clear is what tools should be used to manage the performance and what the link is between funding and performance. The strategic tools to manage performance could not be established from the models on PBF. Further investigation was done in the areas of strategy and performance. The next chapter will address the tools that were used in performance management.

## CHAPTER 3

### 3. PERFORMANCE LITERATURE

#### 3.1 PERFORMANCE INTRODUCTION

It is established, below under section 4.10, that critical success factors give early direction to which performance indicators should be adopted and used for business management. This chapter examines performance in more detail and look at the tools that could be used to establish and measure performance. Although various performance tools were investigated, this thesis will focus more on tools that support a balanced approach to performance measurement. Information should be collected, analysed and used in a balanced fashion and at the right time, otherwise it would be futile to measure the effectiveness or efficiency of a service. The futility of the exercise could be in the late collection, analysis and use of the information or the premature implementation of an activity, based on insufficient information. This contention is supported by Zairi (1996), who purports that performance measurement is done through a "...methodological approach, which is the key determinant of its effectiveness..." He contends further that good measurements provide quality information that spurs action for things to be changed. For him performance measures has to:

- Have timeliness,
- Have clarity of purpose,
- Be correct and precise,
- Provide information to the right people,
- Reflect process visibility,
- Reflect progress visibility,
- Focus on core value-added activity,

- Help corporate targets and,
- Reflect a culture of continuous improvement,

Performance measurement according to Zairi (1996) is thus the key driver for continuous improvement. Information used appropriately will prove to be a useful tool for assessing the impact of health services. For a health service to operate efficiently and effectively, managers also need information to assess the efficacy or effectiveness level. In using the latter, managers should be aware of the performance level on which efficiency and effectiveness should be measured, in an effort to plan appropriately (PFMA).

The development of a strategy and indicators is important for measuring performance in any useful way, as the performance measures can be based on the strategy and indicators. Without the strategy, there is a risk that irrelevant, incomplete or misleading measures might be taken and used by management. St Leger, Schnieden, Wallsworth-Bell, (1992) are of the opinion that if information is central to a proper functioning service, then senior managers should be well versed in the discipline of information. This contention holds true, as the success of an organisation is dependent on how managers fulfil their particular roles. The design of a strategy and establishing organisational performance without sufficient awareness or information about the organisation will not assist in the proper functioning of the service.

The present thesis is concerned with the evaluation of “best practice” in business for its benefits to the public sector. According to Green (1999), the mode of evaluating performance in public- and private sectors differs. The focus of the private sector is on maximising profits and minimising cost. The public sector follows the same trend, but is not focused on maximising profits, but maximising the benefits or value to the society and minimising cost.

According to Green (1999) the private sector's appraisal is predominantly about maximising profits (profit and cost difference), whilst the public sector compares the benefit and cost. He contends that there are three differences between the private- and public sectors. In the public sector:

- The benefits gained are not necessarily of a financial nature.
- The wider effect that the activity will have on people and agencies, should be considered with due regard to the direct effects that is being measured.
- Cost analysis is considered in terms of the value and real cost to the community rather than the financial costs to the organisation.

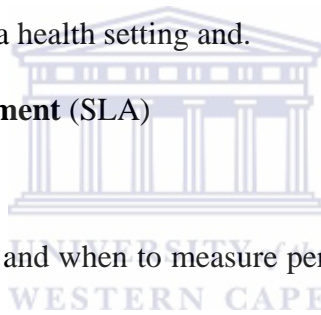
The service provider, in the public sector, should thus focus on maximising the benefit to the recipient of the service and for the service user. The performance of a service provider can best be managed if the terms of reference for such performance has been set, prior to the management of the performance. These terms of reference are normally encompassed in a legal document. In the context of this thesis, tools for performance management will be investigated.

### **3.2 PERFORMANCE OVERVIEW**

In ensuring that an organisation achieves strategic success, it needs to measure the performance of the organisation in relation to the strategy. This chapter address the tools that are used to establish strategic, organisational- and legal performance. Organisational performance refers to the achievement of a target, whilst legal performance refers to the compliance of the contractual parties with the contractual agreement..

In this Chapter the perception of performance is contextualised through a definition. Further investigation is done into what the organisational and legal approaches are in terms of performance management and what is essential in performance measurement. Included in this understanding of performance is the tool for measurement of performance, namely an indicator and the types of indicators. This contextualisation is augmented with the available tools to measure and manage performance. The tools that were investigated were:

- **Total Quality Management (TQM)** and the Kaizen approach to TQM.
- Balanced performance tools like the **Balanced Scorecard (BSC)** and the results and determinants framework, with the focus on the Balanced Scorecard and the application of the BSC in a health setting and.
- The **Service Level Agreement (SLA)**



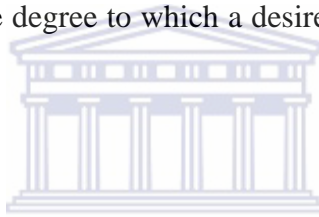
As it is important to know where and when to measure performance, the *Logical Framework* is portrayed as a tool to establish where and when to measure performance (Aga Khan Foundation,1993). In addressing performance, an organisation needs to consider which factors could influence performance. These factors need to be considered in relation to the profile that should be developed for an assessment of an organisation that provides a service. The latter had been addressed under the finance literature. One, furthermore, needs to consider internal factors like the organisational culture and what the effect is of nil or poor performance. The relationship or link between strategy and performance is also examined. The following section examines the tools that are used in managing performance.

### **3.3 PERFORMANCE TOOLS**

#### **3.3.1 Defining performance**

The definition from the Practical Standard Dictionary of Funk and Wagnall's (1940) is that performance is the art of performing, action or achievement. This sounds final as if the performance, act, or action is complete.

According to the Readers Digest Great Illustrated Dictionary (1984), it is the act of performing and the way in which something or someone functions. According to Hilliard (1995), performance relates to the degree to which a desired goal has been met with the least resources (cost).

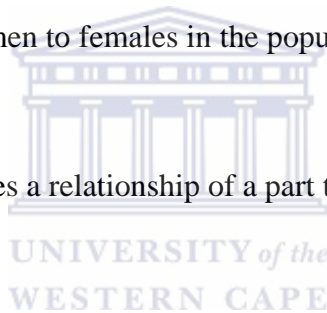


The legal definition according to Van Der Merwe, Van Huyssteen, Reinecke, Lubbe and Lotz, (1993) is that performance is the deliverance of a thing between two parties. This stems from the legal obligations between two parties to adhere to an agreement on a certain due date. Performance, in the widest sense, is thus seen as a human conduct.

In reality performance is not only a fact, act or perception that is measured after an action or non-action. It can also be a continuous assessment of the function of a person or something. According to Measure (2002) monitoring is done to establish whether an organisation is in the process of achieving its targets, whereas evaluation is done to measure whether the targets had been met. Performance measurement is thus, normally, done after the fact. It is impossible to establish beforehand what the exact performance of person or something will be. One can make deductions what it should be or do a risk analysis of the risks involved in

achieving a target, but one can never make exact calculations of the future performance of a person or something. The reason is that various factors influence performance. Thus to establish the level of performance one must have tools that one can utilise to measure performance. The tool to measure performance is called an indicator. The indicator will indicate the performance or non-performance of a person or something. According to the Aga Khan Foundation (1993) indicators can be formulated as:

- The *count* of the number of events or objects e.g. the number of visits to a clinic,
- A *rate*, which is a measure of the frequency of the occurrence of an event e.g. number of patients seen at a clinic per day,
- A *ratio*, which is two numbers that relate to each other in terms of a fraction or a decimal, e.g. the ratio of men to females in the population is 1:7 or the nurse to patient population ratio is 1:1000,
- A *proportion* that expresses a relationship of a part to a whole.



An indicator consists of a denominator and a numerator. The numerator is divided into the denominator and is a portion of the total, for example, the proportion of children (3250) immunised in a community (5000) equal 0.65 and a percentage that is the portion multiplied by 100. An example is the proportion of children (3250) divided by the population in a community (5000) multiplied by 100 equals 65 percent. An indicator is a tool that standardise the measurement of an event or object, but each measure should comply with certain essentials. The essentials of performance measures will be investigated next.

### **3.3.2 Essentials of performance management**

According to Moulin (2004), there are eight essentials to performance measurement. These essentials are:

- To use a balanced set of measures,
- Make sure that the measures matter to service users and stakeholders,
- Involve staff in determining the measures,
- Include performance and perception measures,
- A combination of outcome and process measures should be used,
- Be aware of the cost of performance measurements,
- Have a clear system of how the performance measures should be translated into strategic action and
- The focus of the measurement system should be on continuous improvement rather than a culture of blame.

Bolton (2003) also provides criteria for performance measures in the public service, which are that they should be significant, offers views from different perspectives, reflect the concerns of stakeholders (Halachmi, 2002), be used and considered together rather than in isolation, provide a balanced approach to qualitative and quantitative measures, be discriminating and not impact negatively on primary tasks. Moulin (2004) and Bolton (2003) refer to the use of a balanced approach to performance measurement. Both reference the Balanced Score Card (BSC). Moulin (2004) goes further, and developed a public sector scorecard, which is an adaptation of balanced scorecard of Kaplan and Norton.

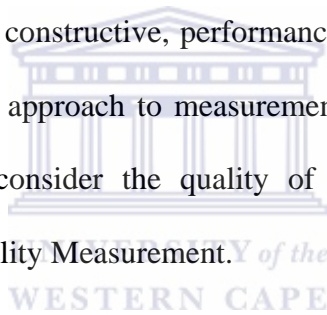
The public sector scorecard, according to Moulin (2004) has five components, which are:

- Achievements of the strategic objectives
- Service user/stakeholder satisfaction
- Organisational excellence
- Financial targets and



- Innovation and learning

Bolton (2003) preferred to stay with the traditional, Kaplan and Norton, scorecard, which has four components, which are finances, customers, internal business processes and innovation and learning. Bolton (2003) believes that a balanced approach should be used as the basis for ensuring a society of continuous improvement rather than a society of blame. Bolton (2003) contends that there should be a collaborative process when drawing up the measures. In adopting a collaborative process, there will be some ownership of the measures. The latter should permeate the monitoring and evaluation process in an effort to get feedback on the processes. The assumption is that if the communication and feedback processes are in place, the measurement process will be constructive, performance enhancing and not a blaming or punishing process. The balanced approach to measurement will however add little value if performance measures do not consider the quality of a product or service. The next subsection will address Total Quality Measurement.



### **3.3.3 Total Quality Management**

According to Zairi (1996) the origins of the concept of quality cannot be exactly indicated. There is however evidence to indicate that the Egyptians used quality control mechanisms during 2700 BC to build the tomb of King Khufu, at El Giza. The concept of quality was introduced in Japan as a philosophy in their business during the 1980's. TQM was also introduced in Europe and the United States of America (USA) during the 1980's, and later in other countries.

### 3.3.3.1 What is TQM

TQM is an approach that is used to improve organisational competitiveness, effectiveness and flexibility. It is used in the overall planning, organisation and understanding of activities. The implementation of TQM finds its appearance at each business level and the involvement of each person is vital to the success of its implementation. The success of TQM is dependent on the harmonisation of each part towards the organisational goal (Oakland, 2003). Oakland (2003) proposes a model for TQM that is called the Framework for Total Quality Management. This framework developed from a model called the TQM model. (See Figure 7)

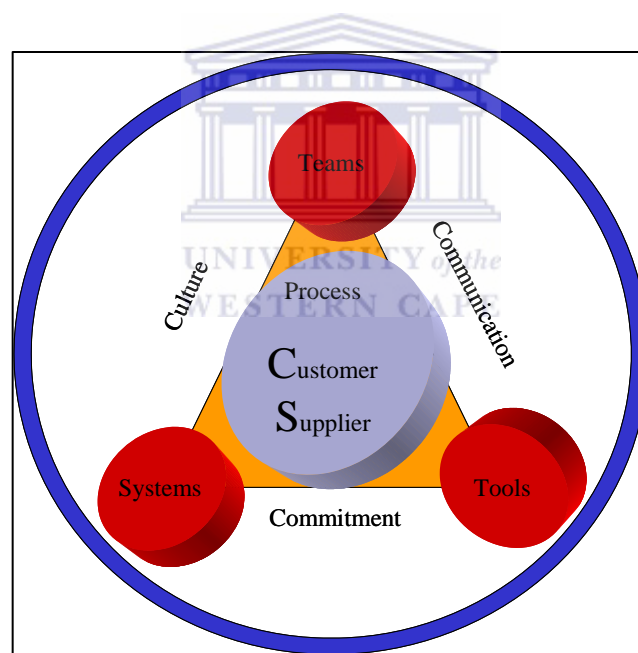


Figure 7: The TQM model as adapted from Oakland J (2003)

The approach in the model was to include quality circles, tools for “... problem solving and statistical process control ...” and “... quality systems, ...”, the role of culture in an organisation, the role of communication, the commitment of individuals in the organisation and the role of the customer and the supplier, “quality chains” and the processes followed are

deemed to be at the core of this model. Oakland (2003) proposes a new framework for TQM as indicated in Figure 8

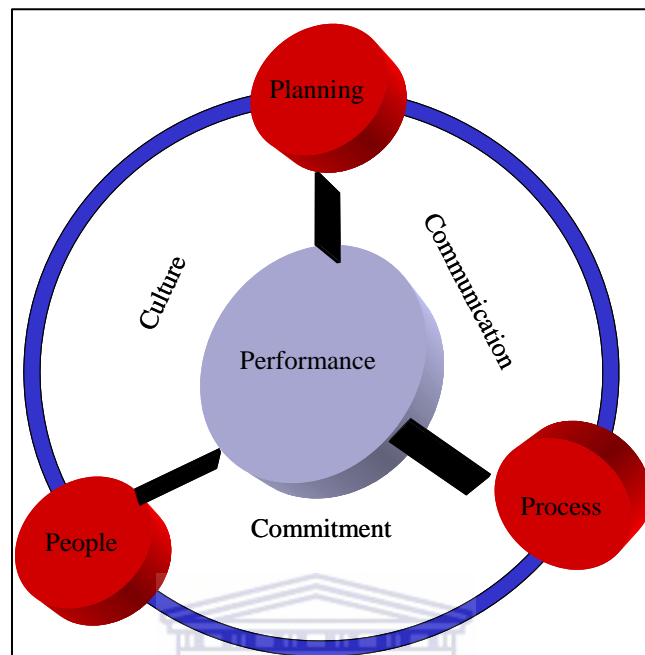


Figure 8: The TQM framework adapted from Oakland J (2003)

The bases for this model are the four “P’s” with the three “C’s” to complement the completeness of the framework. The four P’s are planning, performance, processes and people. The 3 C’s are culture, communication and commitment. Planning refers to the process of designing quality, Setting up “... partnerships and resources; ...” and Strategy- and policy development and deployment. Performance relates to establishing of balanced performance frameworks, doing self-appraisals, audits, reviews and benchmarking. Process aspects include understanding, management, design and redesign, quality management systems and continuous improvement. The people angle relates to human resource management, cultural change, teamwork, communications and innovation and learning. The human resources perspective is also reflected in the Kaizen approach, which will be addressed next.

### **3.3.3.2 Kaizan as a TQM tool**

According to Kotelnikov (2004) the Kaizen approach to performance measurement or quality control is to measure the quality of people. It is a tool that focuses on building quality in the total performance of all the people in the organisation, from floor workers to management. The *approach* is to concentrate on the process rather than achieving certain results. The *philosophy* is that quality people create quality products. The *aim* is to improve managerial performance at all levels. Workers and managers are involved in all the areas of corporate activities. The quality of people is perceived as an organisation wide control of quality.

The main features of the total quality movement in Japan are that it is a company wide initiative that involves all the employees from workers to management. Education and training is emphasised for workers to top management. The focus of the education and training is to create awareness amongst employees and to implant the philosophy of Total Quality Control (TQC) in all employees. Small groups of volunteers meet to have Quality Control (QC) circles. The aim of the QC circles is to improve the work environment. These areas of improvements are related to cost, safety and productivity, sales and service, statistical methods that are applied to assess quality and quality improvement. The areas of improvements also include standards that are constantly being revised and upgraded and total quality management as a national approach (Kotelnikov, (2004).

### **3.3.3.3 Kaizen and management**

There are two management components in the Kaizen approach:

- Maintenance and
- Improvement.

In focusing on maintenance, management has to establish policies, rules, directives and standard operating procedures (SOP's) and ensure that everyone follows the SOP's in a disciplined fashion and through human resource development strategies. In creating improvement, management works towards continuous revision of current standards. Once the standards has been mastered, higher ones should be established. The Kaizen approach to TQM is to involve all employees to create small improvements in a continuous and co-ordinated fashion (Kotelnikov, 2004).

### **3.3.4 The Balanced Scorecard**

#### **3.3.4.1 Introduction**

According to Kaplan and Norton (1996), Information brought about new capabilities for creating competitive success. These capabilities refer to the organisational capabilities for dealing not just with the tangibles of the organisation, but also the intangibles. The traditional financial accounting model addressed the financial status of the organisation, but did not consider the impact of non-financial assets on the organisation. This accounting model is still functional in organisations. It should have developed to include intangible and intellectual assets of the organisation and the value that they can add to the organisation (Kaplan and Norton, 1996). The focus here is not an in depth analysis of the BSC, but an overview of the BSC as a model for a performance management- and performance evaluation system. Norton (1999) indicates that a scorecard should describe the strategy strategy of an organisation, if the aim of performance is focus on the organisational strategy. In essence, this means that a scorecard should measure the outcome that the organisation intends to produce.

Broadbent (1999) provides insight that the balanced view is “... part of a typology of measurement systems ...” (Euske, K, Lebas, M and McNair, C, 1993) and a “... way of integrating organisational objectives.” Broadbent (1999) also presents two models that offer a balanced view of performance measurements in an organisation, which are the Balanced Score Card (BSC) and the Results and Determinants Framework (RDF). The focus in this thesis, however, will be on the Balanced Score Card.

According to Olve, Petri, Roy and Roy (2003) the Balanced Score Card (BSC) was first presented during the 1990s. It quickly found its way into firms with big successes and some failures. Indications are however that there were more successes than failures. It has however become standard practice in modern management. The need for the BSC had been prompted by the need within organisations to measure performance of not just finances, but also other activities or operations within the organisation. According to Neely, Marr, Roos, Pike, and Gupta, (2003) the BSC is a second-generation measurement tool, but a first generation balanced measurement tool. The performance of organisations was traditionally measured in terms of efficiency or finances. The advent of the second generation of measurement tools and first generation balanced approaches changed the scene to include financial and non-financial measures. The BSC is one of the tools that combined financial and non-financial measurement.

#### **3.3.4.2 Description**

The BSC is a format that is used to describe organisational activities by using measurements for each of four perspectives of the organisation, indicated in Figure 9. The BSC is used to describe organisational ambitions and achievements in a generic format. (Olve et al, 2003). The BSC can thus be described as a tool that is used to plan, measure, link, monitor, evaluate

and direct organisational strategy, measures, priorities and activities to create a competitive advantage within an industry or to achieve the best realisable outcomes within the available resources. The description is probably best described by Norton (2000) when he indicates that the BSC reflects the philosophy of the systems approach and that strategy is a linked set of actions and outcomes over time. The approach is derived from cybernetics, which is a process of feedback and control. The latter is fundamental to the systems approach. He further contends that it is in fact rocket science. The principles that were used to design a system to put a man on the moon; are used in the BSC and strategy maps. The implication is thus that when we deal with the BSC, we are in fact dealing with a rocket science approach and - system.

#### **3.3.4.3 Understanding the Balanced scorecard**

According to Kaplan and Norton (1992), Managers should have an overview of the business and not have to choose between financial and operational measures of performance. They indicate that there should be sufficient interplay between financial and operational measures, to provide a comprehensive perspective of organisational performance. The four areas of measurement are financial-, customer-, internal business process- and development perspectives.

Olve et al (2003) believe that there is more to the BSC than meets the eye. They contend that the scorecard is balanced in terms of the following:

- The scorecard aims to provide a comprehensive perspective of the organisation in that it includes the four perspectives that transpire within a specific time dimension.
- It focus' on internal and external measures
- It makes assumptions about cause and effect linkages between different measures

The tool is used in business, non-governmental organisations (NGO's) and government alike. Olve et al (2003) indicates that NGO's used the scorecard as a tool to facilitate "... discussions about trade-offs between diverse interests, and the general level of ambition within a specific policy area."

Successful cases in government has been more evident at lower levels where scorecards fulfilled a role clarification function. The Swedish police department implemented scorecards for towns, but still has to implement it on national level (Olve et al, 2003).

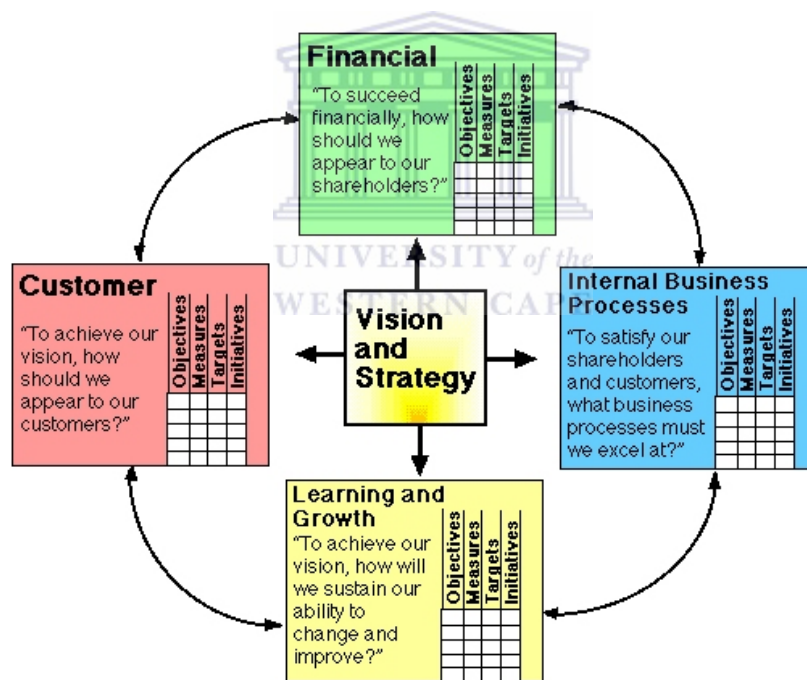


Figure 9: The Balanced Scorecard (Source: Kaplan and Norton, 1996) (Extracted from <http://www.balancedscorecard.org/basics/bsc1.html>).

According to Figure 9, organisational vision and strategy provides the impetus, objectives and measures for organisational performance. The performance of the organisation is measured from four perspectives that are finances, customer, internal business process and



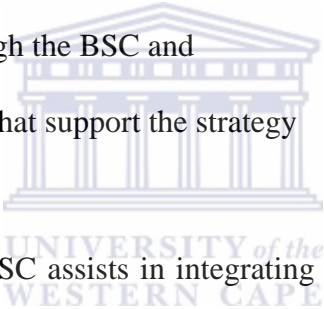
learning and growth. The BSC not only provides achievement of past performance, but also what the drivers of future performance should be. The BSC is also used in a health setting and some reflection on this will be accorded in the next subsection.

#### **3.3.4.4 The Balanced Score Card in a Health Setting**

Government services do not have shareholders, but when the financial perspective is being looked at, one considers the community to be the shareholders or role players, although the same community is also the customer. The appropriate terminology in use for the public sector context is a stakeholder, rather than a shareholder. Murphy (1998) and Broadbent (1999) contend that the balanced scorecard can be applied in a health setting that has multiple constituencies as in the British National Health Service (NHS). Oliveira (2001) contends that the implementation of the BSC, in a health setting, was hampered by the lack of available performance data and the use of a BSC could justify the implementation of a data warehouse in the health sector. The reason for the latter is because healthcare organisations have to integrate clinical, operational and financial data to support decisions made in the organisation. Health managers are able to influence performance indicators and thus also organisational behaviour and activities in an effort to achieve their strategies. Each corporate objective should have an outcome. The necessary data to monitor the achievement of the strategy should support the outcome of the corporate objective. Some examples of the measurements that may be used will for example be the Average length of stay (ALOS), because a reduction in the ALOS can lead to a cost saving for the organisation, or the patient satisfaction rate, to establish how satisfied patients are with the service.

According to Oliveira (2001) to build the BSC, in a health setting, with a supportive, information foundation, one has to consider ten steps.

- Building the business case
- Identify the strategies
- Identification of the tactical objectives
- Identify the Performance measurements
- Identify the data sources for calculating the performance measures
- Create a data warehouse to supply data
- Select the technology to create the data warehouse
- Create a BSC report
- Manage the strategy through the BSC and
- Refine tactical objectives that support the strategy



Oliveira (2001) argues that the BSC assists in integrating business and clinical perspectives through the BSC at both strategic and tactical level. This is done through the measurement, dissemination and analysis of interrelated performance indicators. Kaplan et al (2001) focused on the pressures that healthcare institutions has to endure with shrinking income, increasing debt, nurses that leave in droves, increase in medical errors and various other factors that impact on service delivery. Kaplan et al (2001) contend that managers try to be “... all things to all people...” and that a “one size fits all strategy” does not work. They contend that managers should make strategic decisions. Some hospitals took the lead in introducing the balanced scorecard to develop “... performance management systems...” that were based on their strategies. They recognise that the BSC would provide them with benefits, as indicated below. Two of these hospitals were Duke Children’s Hospital and Montefiore Medical Centre.

At Duke Children's hospital the BSC was initiated through a senior project team, consisting of clinicians and administrators that identified the organisational strategy. Duke Children's Hospital identified its mission by focusing on the customer and the value that they provide. The customer was regarded as the patient, their families and the physicians. The value that was provided was "...Providing the best, most compassionate care and excelling in communications." This mission expressed in the BSC because they included measures that would establish these outcomes for patients, their families and the physicians and balancing it with financial measures to reduce cost. This led to the development of new processes and the re-engineering of existing ones.

Montefiore Medical Centre had to contend with a budget shortfall of \$50 million. The Chief Operating Officer (COO) dealt with it by reducing staff although the intention was to allow the organisation to grow. She furthermore led her team through two strategies, which were:

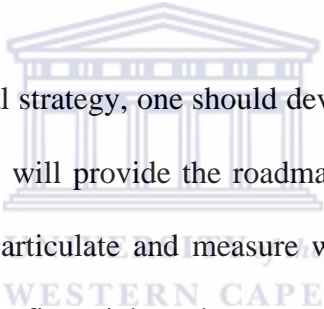
- "...Be all things to some people and
- Be something to all people..."

An acronym "GRIP" was used to name the imperatives that developed from these two themes.

- Grow volume and market share;
- Rebalance academic and clinical staff
- Infrastructure: upgrade facilities, information systems and technology and
- Performance: set targets and achieve them.

The road to implement the BSC for the COO was very long, but in talking the language of the clinicians, influencing new appointees and using the scorecard for managers to motivate for

their bonuses, reaped benefits. It took three and a half years for the BSC to become firmly embedded in the hospital system. It was implemented with incentives on all four perspectives of the scorecard and on executive and departmental levels. The perspectives of the COO were that the BSC provided an effective tool for managing a complex system, like health and it is a model that focused people on the system, processes and the customer (Ross 2001). The aim of the strategy was to achieve a balance between "... population-based healthcare..." and "...developing centres of excellence..." Montefiore's scorecard included traditional performance measures, which included patient satisfaction and cost factors, and strategic measures that measured the "... success of the growth strategy..." which included market share and volume.



After developing an organisational strategy, one should develop a strategy map that indicates the causal links. The causal links will provide the roadmap for executing the strategy. It is important for an organisation to articulate and measure whether they are actually creating customer value. In supporting the financial- and customer perspectives, internal processes needed to be addressed, both clinically and administratively. The learning and growth perspectives should focus on recruitment and training of staff and how to provide them with tools to provide an efficient and effective service. The strategy map is a useful tool to indicate the linkages between team-members, training and experience, in an effort to mould the views about the strategy and to create success (Kaplan et al, 2001). Kaplan et al (2001) quoted a health professional as saying that organisational strategy emulated the intervention process of a doctor. A doctor will not treat a patient unless a proper assessment and diagnosis had been made of the whole body of the patient. In the same way, a health-care organisation will not be able to articulate, measure and diagnose its strategy without a proper systems or balanced approach. Kaplan et al (2001) indicated that a good balanced scorecard has key drivers of

success that influence the overall performance of an organisation and in the same way it encourages learning and actions based on the results emanate from the system. The BSC is a strategic tool to measure performance and the reasons for using it varies. The next subsection explores the reasons why organisations use the BSC.

#### **3.3.4.5 Reasons for using a BSC**

The scorecard is a communication tool. This tool will guide the organisation towards the management control systems should be implemented and also the management control system that would align the activities of the business with the strategy, monitoring organisational performance and ensure that appropriate activities are followed to attain the organisational strategy.



The following are some of the uses of the BSC:

- Discussions on strategy (Olve et al 2003)
- Structuring of plans and reports (Olve et al 2003)
- Substitutes for or coexistence with budgets (Olve et al 2003)
- A Management system (Kaplan and Norton 1996)
- A strategic framework (Kaplan and Norton 1996)
- A communication tool (Kaplan and Norton 1996)

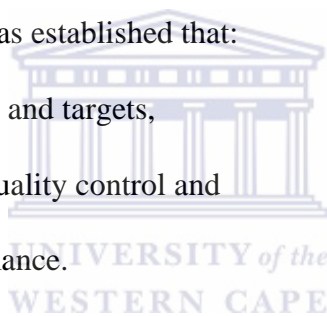
MacStravic (1999) highlighted the benefits of a scorecard in a health setting. He indicated that there are three internal and three external benefits. The internal benefits are that it adds customer insight, refocuses internal operations and energises internal stakeholders. The

external benefits are that it strengthens customer acquisition efforts, strengthens customer relations and increases loyalty and returns of value.

Kaplan et al (2001) also highlighted benefits that managers recognised in using the BSC, which were that the strategy helped them to do the right things and provided a structure and framework. It was used as a communication tool and for collaboration between employees to attain strategic objectives. It was used to allocate scarce resources for specific outcomes, provided a feedback and review loop and a learning opportunity to monitor and improve the strategy. It also assisted to adapt the strategy in a changing environment.

Under “performance” the thesis has established that:

- There should be a strategy and targets,
- An environment of total quality control and
- A tool to measure performance.



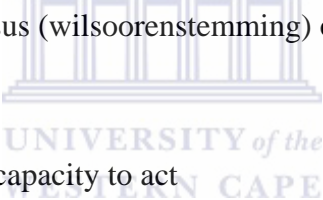
But this will be of little value if the service provider and the service user are not provided with sufficient direction on how the roles and responsibilities of each party should be contextualised in terms of the strategy, targets, quality and metrics.. A written agreement in the form of a service level agreement (SLA) is used to provide the contextualisation, which will be explain in the next subsection.

### **3.3.5 Service Level Agreement**

#### **3.3.5.1 Introduction**

A contractual agreement is an agreement or apparent agreement between two or more parties that has a legal effect. This is part of the material law and directed by private law, more so the law of contract. Contractual agreements in terms of South African law arise by agreement or apparent agreement between two or more contracting parties. There should thus be agreement or apparent agreement. (Hawthorne and Lotz, 1994)

In terms of the law of contract there are certain criteria that has to be complied with before a contract can be regarded as valid, which are

- 
- True agreement or consensus (wilsoorenstemming) or a reasonable reliance or belief that consensus occurred.
  - The parties must have the capacity to act
  - The prescribed formalities of a particular contract should be complied with
  - The performance must be possible at the time of concluding the contract.
  - The agreement must be lawful ((Hawthorne and Lotz 1994)

In contractual agreements the essentialia, naturalia or incidentalia of a contractual agreement need to be considered. The essentialia are what made a contract belong to a certain group of contracts, which could be a lease agreement, a contract of sale, or a contract of exchange. If the contract does not have all the essentialia in place, it does not make the contract void or voidable, but merely not a contract belonging to a specific group. The parties may however decide to agree on a contract that belongs in its own group or sui generis. The essentialia is thus what is prescribed bylaw for a contract to fall within a specific group. The naturalia are

these elements that flow from an agreement or contract by force of law, *ex lege*. Parties do not have to agree on this. Should they however wish to exclude it, it needs to be indicated specifically. The *incidentalia* are specific arrangements that the parties wish to make that are not prescribed by either the *essentialia* or *naturalia*. Parties can thus conclude an agreement by only fulfilling the *essentialia* of the agreement. The *naturalia* will thus flow *ex lege* (Hawthorne and Lotz, 1994). A SLA is based on the contractual agreement and sets out the expected legal outcomes for a service in specific detail, the metrics that will be used to measure it and the roles and responsibilities of all the contractual parties. The Department of Health developed an SLA that addressed the *naturalia*, *incidentalia* and the *essentialia* of the transfer funding process.

### **3.3.5.2 Content of contractual agreements for performance-based payments**

According to Eichler and Kolehmainen-Aitken (2001) and England (2000), the minimum essential features of a contract should include the following:

- The type of service that should be delivered,
- The target groups for the service,
- The goals that must be achieved for each service,
- How the “...performance will be measured and by whom;”,
- The finances that would be available,
- The method of payments and how it would be done,
- The period that would be covered by the contract,
- How data should be collected and the format of the reports,
- The detail of the individuals and those who will be responsible to fulfil the contractual agreement
- The procedures that should be followed to vary the contractual agreement and



- How disputes should be managed and the mechanisms of arbitration

### **3.3.5.3 The content of a sample contract:**

The essential features of a sample contract should include the following:

- An introduction which specifies the contracting parties and the contact detail of the parties.
- Article I explains the Purpose,
- Article II indicates the period of performance,
- Article III identifies the type of subcontract and the amount involved,
- Article IV sets out the schedule of payment,
- Article V identifies the deliverables,
- Article VI addresses the plan of awarding fees based on the agreed targets
- Article VII explains the technical directions such as inputs and activities
- Article VIII gives direction on the technical reports that should be submitted.

### **3.3.5.4 The SLA of Department of Health**

The National Department of Health developed a service level agreement on 22<sup>nd</sup> January 2003 that was intended for use by Provincial Governments (PG) and Local Authorities (LA). This is an outcome of a Health Ministerial and Executive Committee (MINMEC) decision on 25 July 2002, where it was indicated that a SLA framework needed to be drafted, to guide the SLA's between PG and LA.

This agreement consists of five parts or sections, which are as follows:

- The pre-amble and terms and conditions
- The signatures of the authorised representatives to the agreement
- Schedules to the agreement
- Definitions and interpretations to the agreement and
- The annexure.

The main reason for the agreement is to regulate the provision of health services that is provided by LA's on behalf of the provincial government.

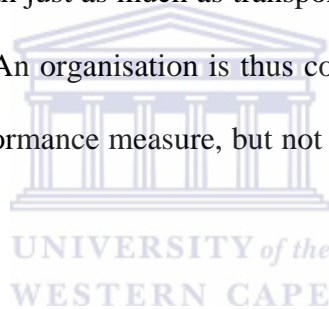
- Section 1 focuses on the general issues that are normally reflected in an agreement of service.
- Section 2 contains the signatories to the agreement
- Section 3 expounds on the financial arrangements, the period of service provision, how funds will be transferred, the services that will be provided and information, monitoring, evaluation and reporting specifications and procedures.
- Section 4 contains certain definitions that are clarified for proper contextualisation in the agreement.
- In section 5 a clear delineation is provided of the services that the LA should provide, but also what support services should be provide by the Provincial Department of Health. The agreement also indicates that quality standards and targets should be addressed. The latter was not available at the time of writing this study.

This written agreement has however not yet been implemented at the time of the research. Even-though such an agreement had been implemented the agreement should have been clear on where and when the performance should be measured, as was indicated in the SLA of the

National Department of Health and that of Eichler and Kolehmainen-Aitken (2001) and England (2000). This issue is examined in the next subsection.

### **3.3.6 Where or when to measure performance**

To measure productivity in the Public sector is not an easy task (Hilliard, 1995). In health, especially, it is difficult to establish whether a certain performance output is related to health input. An example would be the general health status of the community. The question is: What are the factors used to establish the health status of a community? These factors might be dependent on influences from departments other than health e.g. poor environmental conditions has an impact on health just as much as transport service has an impact on trauma cases seen in the health setting. An organisation is thus confronted with a situation where it has to use the best available performance measure, but not necessarily the most effective tool for measuring health status.



In the PFMA, reference is made to performance outputs and outcomes in relation to efficiency, effectiveness and transparency. There is unfortunately no clear definition for what is meant by output or outcome or what the exact efficiency, effectiveness and transparency measures are. It is clear though, from the PFMA, that performance of public enterprises should and must be measured and be reported on, on a yearly basis, to convey an aura of transparency. As the public service moves toward a performance-oriented environment, it is clear that tools should be developed to identify the output-, outcome- or impact indicators, or performance measures that may be used to measure the specific performance of an individual, an organisation or the community. According to Hilliard (1995), public performance is not that clear, because tools that should measure the performance are not clear. This situation is intended to change with the implementation of the PFMA that is geared towards performance

of the public sector. The PFMA, though, lacks sufficient supporting materials that address proper indicators for measuring strategic performance or the tools that should be used for managing performance. One of the tools that are used to establish where and when to measure performance is the Logical Framework.

### 3.3.6.1 The Logical Framework

If one uses the logical framework, one cannot effectively measure performance if the requisites for the previous phases are not in place. For example, one cannot measure output if there were not any inputs or processes that took place and similarly one cannot have an impact if there were not any outputs. See Figure 10 for the model depicted as the logical framework (Aga-Khan Foundation, 1993).

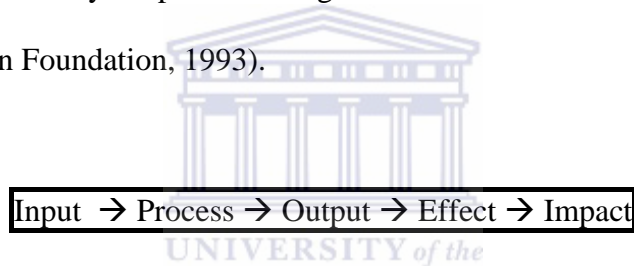


Figure 10: The Logical Framework (Source: Aga Khan Foundation, 1993)

A logical framework is used to identify and illustrate the linear relationships flowing from inputs, processes, outputs, outcomes and impacts. The logical framework is useful for identifying and illustrating operational factors that are important for achieving a successful outcome or impact (Measure, 2002). According to the Aga Khan Foundation (1993), the definitions, or the components, of the logical framework are as follows:

- *Input* is everything that can be measured in terms of what can be sensed by your senses (sight, touch, feeling, smell, taste) or what is done for the existence of an organisation. Examples will be personnel, finance, buildings or training
- *Processes* are all the activities or processes that are generated from the specific input

- *Output* is the immediate result of specific processes, a service or input or the services or goods that were produced. In terms of health, it would be the utilisation of services, quality of care, contacts, visits, access to service and cost per unit.
- *Effect* is the change in knowledge, attitude and behaviour or the achievement / completion of a desired project, goods or service at a specific level in the logical framework. An example will be, achieving 85 percent coverage of a specific group in a specific population, during an immunisation programme
- *Impact* is the achievement of a specific goal/strategy. An example will be the changes in the prevalence or incidence of a certain disease or fertility status of the community.

The last three components of the model namely *output, effect and impact* are regarded as *outcomes* that need be achieved through the inputs and processes. It is evident from the logical framework that if the project or service did not develop sufficiently through the logical framework, it should be measured at the most appropriate level. It would be unwise to measure output if there were not any inputs or activities to transform the input. One would thus first establish whether the input is on the level that is expected and whether the activities needed for transforming the input are in place, then one can measure the output. One would thus not measure an outcome if one did not ensure that all the inputs had been put in place and that the activities has been performed. How an organisation creates an outcome, is a leading indicator, meaning that inputs and processes are leading indicators. What had been created, i.e. the outcome, is a lagging indicator. One thus needs to mix different indicators through a balanced approach to establish how well the organisation is performing.

After selecting the performance indicator, one also needs to establish the standard of performance or the benchmark for a particular indicator, to determine the successful completion or efficacy of an activity (Aga Khan Foundation, 1993). Considering the information on the logical framework and benchmarking, it is possible for the two to be used in conjunction with each other, but the organisation should also consider the factors that may influence performance.

### **3.3.7 Factors that may impact on performance**

Factors that influence performance are intrinsic and extrinsic in nature. Intrinsic factors are factors inside an organisation or person and extrinsic factors are the factors outside a person. One usually has control over the intrinsic factors, but not normally over extrinsic factors. Various factors may influence performance negatively or positively. The management style is either one of the factors that may influence the performance of a person or an organisation, negatively or positively. If an organisation has a manager that has an eclectic or holistic approach to managing the organisation, the manager will have reasonable success in the organisation and so will most of the staff in that organisation. Factors that may influence performance, according to Hilliard (1995) are included in Table 2

Table 2: Factors that influence Performance (Source: Hilliard, 1995)

<b>Negative Factors</b>	<b>Positive Factors</b>
Management style	Good labour practices
Technological processes	Management encouragement by objectives
Complexity of work	Outcomes based approach to work
Trade unionism	Management style
Unsatisfactory labour relations	Incentives or fringe benefits
Discriminatory employment practices	Organisational Development
Relocations	
Insecurity in the workplace (about having work and dangers in the work)	
Work-overload	
Unreceptiveness to innovation	
Sacrosanctity of routine	
Deployment of staff	
Constant restructuring	

### 3.3.7.1 Legal Factors

Legal factors influence the compliance of parties to the contractual agreement. It is thus needed to also consider what the legal perspective is of factors that influence performance.

Van Der Merwe et al (1993) perceives the legal influences on performance as subjective (relative) or objective (absolute). Subjective or relative influences cause the debtor to be

unable to perform, but someone else might have been able to perform. Objective or relative influences would have prevented anybody from performing.

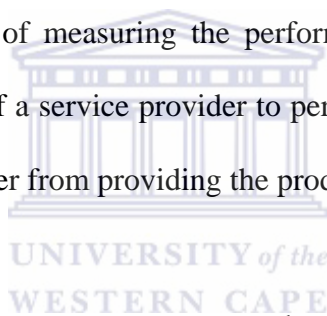
### **3.4 SUMMARY OF PERFORMANCE LITERATURE AND TOOLS**

In terms of the PBF models, the transfer of funds occurs after the performance of the service provider had been assessed. The measurement of the performance of an organisation is only as good as the tools that are utilised. Each tool provides a specific value, strengthens the validity of the performance outcome and has a specific role and function within the performance measurement system. There is general agreement on how performance should be measured. In the private- and the public sector, the difference is in the focus. Both want service to a community, but in public service the focus is more on the benefit for the money. In the private sector, it is the money for the benefit. The aim of the private sector is to generate profit for their investment or money, while the public sector wants value for money as an outcome.

Strategy and performance are closely linked in that it will be difficult to measure organisational advantage without also thinking strategically. Performance tools are thus used to establish the achievement of strategic advantage in an organisation, but before the tools are considered, the criteria for performance measurement and the essentials of performance measurement should be considered. To achieve strategic success, the tools should be used in conjunction with each other and be regarded as part of an integrated performance management system, rather than as separate tools. The implementation of the one tool affects the implementation of the other tools and the whole system. An organisation will have



difficulty in providing a quality product if they do not plan and manage the quality of the product. In the same way, if only one area of performance is managed without consideration of the other areas, the quality of the product will be negatively influenced, thus, it is necessary to have a balanced approach to performance management. If the organisation does not know when and where to measure the performance and ensure that the preceding steps for measurement are in place, it will add little value to the understanding of managing the performance of the organisation. If services are outsourced, proper tools should be in place to identify the standards, norms and quality of the product or service and the roles and responsibilities of each party. An organisation should consider positive, negative, intrinsic, extrinsic, objective, subjective, absolute and relative factors that impact on performance management especially in view of measuring the performance of the service provider. It would be an unjust expectation of a service provider to perform when absolute and objective factors prevent the service provider from providing the product or service.

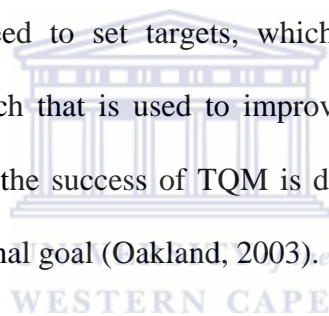


According to Bolton (2003) performance management should be significant, offer views from different perspectives, reflect the concerns of stakeholders (Halachmi, 2002), be used and considered together rather than in isolation, provide a balanced approach to qualitative and quantitative measures, be discriminating and not impact negatively on primary tasks. Moulin (2004) and Bolton (2003) agree that it is essential that a balanced approach to performance measurement should be used. Moulin (2004) provides further essentials to performance management which are to make sure that the measures matter to service users and stakeholders, involves staff in determining the measures, includes performance and perception measures, use a combination of outcome- and process measures, be aware of the cost of performance measurements, has a clear system of how the performance measures

should be translated into strategic action and the focus of the measurement system should be on continuous improvement rather than a culture of blame.

What needs to be noted is that various tools create advantages for the organisation. The tools that are used for the management of performance are TQM, the Balanced Scorecard, the Service Level Agreement and the logical framework.

Total Quality Management processes are used to ensure that the final product is of a particular quality. To ensure that the quality is comparable internally or externally to the organisation, one needs to set standards or benchmarks. To achieve a specific level of production or standards one need to set targets, which may or may not relate to the benchmarks. TQM is an approach that is used to improve organisational competitiveness, effectiveness and flexibility and the success of TQM is dependent on the harmonisation of each part towards the organisational goal (Oakland, 2003).



The traditional financial accounting model addressed the financial status of the organisation, but did not consider the impact of non-financial assets on the organisation. According to Kaplan and Norton (1996), Information brought about new capabilities for creating competitive success. This brought about a model that considered organisational capabilities as dealing not just with the tangibles of the organisation, but also the intangibles. This model was named the Balanced Scorecard. The model considers four areas of strategic performance management, which are the traditional area of finances and included the areas of processes, innovation, technology and learning and the customer or client perspective. This model finds alignment with the criteria and assessment that is made on financing, as the assessment of

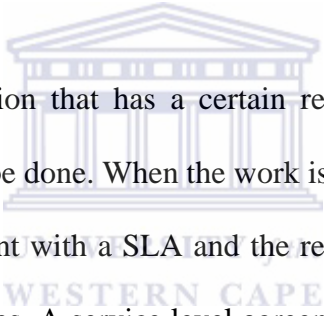
finances also considers organisational finances, the organisational capabilities, innovation and learning, the services that has been provided to the client and whether that was done within the financial constraints. According to Norton (2000), the BSC reflects the philosophy of the systems approach and that strategy is a linked set of actions and outcomes over time. In using the balanced approach to measuring performance, the service provider is assured that the performance is managed in a balanced manner, but the service user is provided with a balanced perspective of the performance of the service provider. The tool can be utilised in the public- as well as the private sectors.

Service level agreements are needed when standards, norms, specifications, quality, roles and responsibilities are agreed to by a service user and service provider. It ensures that a dispute about what was agreed on earlier can be settled by referring to the SLA. The contractual agreement sets out the essentialia, naturalia or incidentalia of a contract and a service user and service provider needs to comply with the agreement when a service is outsourced. The parties may however decide to agree on a contract that belongs in its own group or sui generis. In this case where the PGWC and the LA agree on a service user and service provider contract. There is, however a difference in the contractual agreement of the Department versus that as contended by to Eichler and Kolehmainen-Aitken (2001) and England (2000). See the table Table 3: Comparison of Agreements of Eichler and Kolehmainen-Aitken, England and the Department of Health (Source: Eichler and Kohlemainen-Aitken (2001), England (2000) and Department of Health) ,below

Table 3: Comparison of Agreements of Eichler and Kolehmainen-Aitken, England and the Department of Health (Source: Eichler and Kohlemainen-Aitken (2001), England (2000) and Department of Health)

Eichler and Kolehmainen-Aitken (2001) and England (2000)	Department of Health
<ul style="list-style-type: none"> <li>• An introduction which specify the contracting parties and the contact detail of the parties.</li> <li>• Article I explains the Purpose,</li> <li>• Article II indicates the period of performance,</li> <li>• Article III identifies the type of subcontract and the amount involved,</li> <li>• Article IV sets out the schedule of payment,</li> <li>• Article V identifies the deliverables,</li> <li>• Article VI addresses the plan of awarding fees based on the agreed targets</li> <li>• Article VII explains the technical directions such as inputs and activities</li> <li>• Article VIII gives direction on the technical reports that should be submitted.</li> </ul>	<ul style="list-style-type: none"> <li>• The pre-amble and terms and conditions</li> <li>• The signatures of the authorised representatives to the agreement</li> <li>• Schedules to the agreement</li> <li>• Definitions and interpretations to the</li> <li>• The annexure.</li> </ul>

Performance targets and measures are directed and aligned with how the organisation developed and what needs to be measured. The logical framework provides a good indication of where and when one should measure performance. It will make little sense to measure organisational output, if there was not any input or process. One can thus only measure the outcome if something had been done to create the outcome. How an organisation creates an outcome, is a leading indicator, meaning that inputs and processes are leading indicators. What had been created, i.e. the outcome, is a lagging indicator. One thus needs to mix different indicators through a balanced approach to establish how well the organisation is performing.



It may happen that an organisation that has a certain responsibility to do work and will outsource the work that needs to be done. When the work is outsourced, it becomes necessary to develop a contractual agreement with a SLA and the required measurement for the SLA, between the two contracting parties. A service level agreement will protect the rights of both parties, but also guide on the roles and responsibilities of each party and what the outcome will be if one of the parties fails to perform in terms of the service level agreement.

In considering the contractual agreement, the SLA and the measurements the parties should have regard for the factors that influence the outcome of and compliance with the agreement. These factors can be divided in to legal factors and human performance factors.

The management of strategy and setting of goals was revealed during the investigation of the financial models, as an area that should be addressed during PBF. The tools that are needed and how it should be managed was not evident from the literature on PBF. It is, however an

area that should be addressed, as was indicated in the models on PBF. In the performance management tools it was addressed as an area that precedes performance. Strategy will thus be addressed in the next chapter.

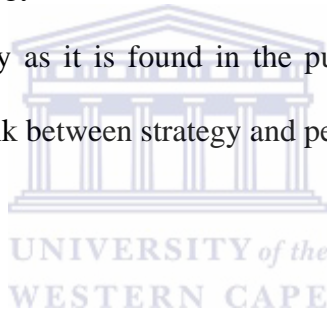


## CHAPTER 4

### 4. STRATEGY LITERATURE

#### 4.1 STRATEGY INTRODUCTION

This project embraced strategy as it is found in the standard texts and presents the work of seminal writers in this area. The approach was to review the literature of seminal writers as far back as 1980. The aim was to extract the work of writers around strategy and to gain an overview of strategy. This should not be regarded as an in depth study. The thesis will establish the principles in strategy, what criteria should be applied to evaluate a strategy and the process of developing a strategy in a diverse environment. It will, furthermore, elicit the processes and formats of strategy as it is found in the public health domain, especially in South Africa, and establish the link between strategy and performance.



#### 4.2 DEFINING STRATEGY

Different writers has different definitions of strategy. Koontz and Weihrich (1988) present three definitions namely:

- It is a general program of action of how resources are deployed to attain comprehensive objectives.
- It is the organisational program of objectives with their changes, how the objectives can be attained and policies that govern resource acquisition, use and disposition.
- The process of determining long-term objectives, the adoption of courses of action and allocation of resource to achieve the determined goals.

According to Thompson and Strickland (1996), it is the pattern of action that is employed by managers to achieve performance targets. The strategy should be crafted on a sound information base. Gopinath and Siciliano (2005) indicated that Mintzberg (1987) perceives strategy in five different ways, named the five P's. Strategy is perceived as a:

- Plan, which is an intended course that managers embark on. Strategy thus directs them on their path.
- Ploy, where specific tactics are employed to outmanoeuvre competition.
- Pattern, which indicate a direction that which management would normally follow. This is normally evident after the fact.
- Position, where management directs the organisation to occupy a specific space in the market, e.g. the strategy of Fairchild Semiconductor was to achieve a 10% market share in the industry.
- Perspective, where the culture of the organisation is developed so that individuals has a certain perspective of the world and the organisation in relation the world. A specific belief system is inculcated, internally (management and other employees as individuals acting as one) and externally (external stakeholders having a specific view of the organisation) (Mintzberg and Quin,1991).

For the purpose of this thesis, it will be defined as a statement of intent to achieve a specific goal for a given period, adopting courses of action and allocating resources to achieve the desired goal. Now that strategy is defined one needs to consider what principles are employed in strategy?



### 4.3 STRATEGIC PRINCIPLES

Thompson and Strickland (1996) indicated that the implementation of strategy is an administrative task that comprises certain principles. These are:

- The organisation should be developed to successfully implement the strategy.
- Financial resources should be directed towards internal activities that are critical for strategic success.
- Policies should be designed, to support the strategy.
- People should be motivated to pursue the stated targets and if needed, modify actions to ensure successful execution of the strategy.
- The rewards should be linked to the attainment of the required targets.
- A company culture should be developed that is conducive to attainment of the targets.
- Internal support systems should be in place that will enable personnel to strategically pursue the desired outcomes.
- Implement best practices and programmes to ensure improvement.
- Provide internal leadership to propel implementation, progress and enhancements towards execution of the strategy.

As can be noted in the principles, there are various internal processes that should be embedded in the organisation, to ensure that the strategy is successfully implemented. This would, however, prove difficult if the organisation does not have a strategy. It should thus consider how it should be developed, the process that is followed, how it is managed, how one decides on the most appropriate strategy and how one should evaluate it. The next section will consider the stages that are followed within the strategic process.

#### **4.4 STAGES OF STRATEGIC PROCESS**

According to Koontz and Weihrich (1988) during the stages of the strategic process:

- Specific goal inputs need to be identified
- The enterprise profile is identified (where it is now and where it should go)
- The organisational climate and the determined direction of the organisation need to be set.
- The purpose and main objectives are identified and set.
- An audit and evaluation is done of the present and future external environment in terms of threats and opportunities. (Economic, Social, political, legal, demographic and geographic factors)
- An audit and evaluation is done of the internal environment. (Resources, strengths and weaknesses in research, development, production, operations, procurement, marketing, products and services.)
- The organisation develops strategic alternatives based on the analysis of the internal and external environment.
- An evaluation is done of strategies and a choice is made based on the risks.
- Consideration is afforded to medium- and short-term planning as well as the implementation process, control mechanisms and the feedback process/flow.
- Tests are conducted for consistency and contingency plans are prepared.

Now that the strategic process is identified, one needs to consider what the tasks are to manage the strategy.

## **4.5 THE FIVE TASKS OF STRATEGIC MANAGEMENT**

According to Thompson and Strickland (1996), there are five tasks to strategic management, these are to:

- Decide on the type of business, formulate a strategic vision or direction and a mission that should be achieved.
- Identify "...measurable objectives and performance targets" in relation to the vision and mission.
- Design a strategy to accomplish the considered results
- Effectively and efficiently implement and execute the chosen strategy.
- Conduct a performance appraisal, revisit advances, and initiate long-term remedial actions in terms of the vision, mission or implement and to consider the "... actual experience, changing conditions, new ideas and new opportunities."

The management of the strategy will be of little value if the organisation does not know what strategy it should employ or whether it is the most appropriate strategy. The next section will embark on the considerations for deciding on a strategy and what criteria are used to establish whether the strategy is appropriate for the organisation.

## **4.6 DECIDING ON AND EVALUATING A STRATEGY**

A change in strategy becomes necessary when there is a marked gap in performance and the performance is below the projected or expected level (Stoner and Freeman, 1989). The critical management issue in deciding on a strategy, is how to achieve the considered result in view of the organisational resources. In designing a strategy, one should constantly be aware

of market changes, and of the internal and external drivers that will prompt management to re-strategise. According to Thompson and Strickland (1996), this ability by management to respond to market activity is regarded as employing entrepreneurial skill. Strategic decisions are made by identifying the strategic alternatives, evaluating the alternatives and selecting a strategy (Stoner and Freeman, 1989).

1. At one stage in the business one might have identified different opportunities (alternatives). Opportunities has to be transformed into strategy. If the strategic change is minute, the alternatives are few. If however major changes are needed, more alternatives should be identified.
2. The strategies should be evaluated in terms of the possible effects or outcomes it will generate for the organisation.
3. When choosing a strategy, managers should choose a strategy that is best suited for the organisational culture and capabilities. The successful plan will exploit the strengths of the organisation.

Rumelt, (1980) and (Mintzberg and Quin, 1991) identified four criteria to evaluate strategy, which are:

- Goals, objectives and policies should be consistent with internal aspects of the organisation (Consistency)

- Resources and efforts should be focused and adapted, in relation to the environment, to the critical issues identified and separated from unimportant issues. (Consonance)
- It should address the available resources, knowledge and skills of the organisation. (Feasibility)
- There should be a good prospect that the strategy will achieve the desired result and that the advantages of the strategy will be exploited. (Advantage)

Strategy formulation follows a defined process. The defined process is needed to ensure that it is properly managed. It should, however, be evaluated in terms of specific criteria. The strategy must be consistent with the organisational needs, it must be consonant with the resources, there must be a chance that the strategy will be achieved and create a benefit for the organisation. Although certain processes need to be followed to ensure that strategy is appropriately implemented, the health service is a diverse environment and needs more direction on how the strategy should be managed in a diverse environment.

#### **4.7 MANAGING STRATEGY IN A DIVERSE ENVIRONMENT**

According to Thompson and Strickland (1996), there are four levels of strategy. The four levels differ in its application in a diversified company and a single business company. The diversified company has four levels, whereas the single business has three levels. The levels for a diversified company are:

- Corporate company,

- Business units,
- Functional units and,
- Operating units

The last three are also applicable to a single business company.

See Figure 11 for the pyramid of the Corporate Company and Figure 12 for a Business Company.

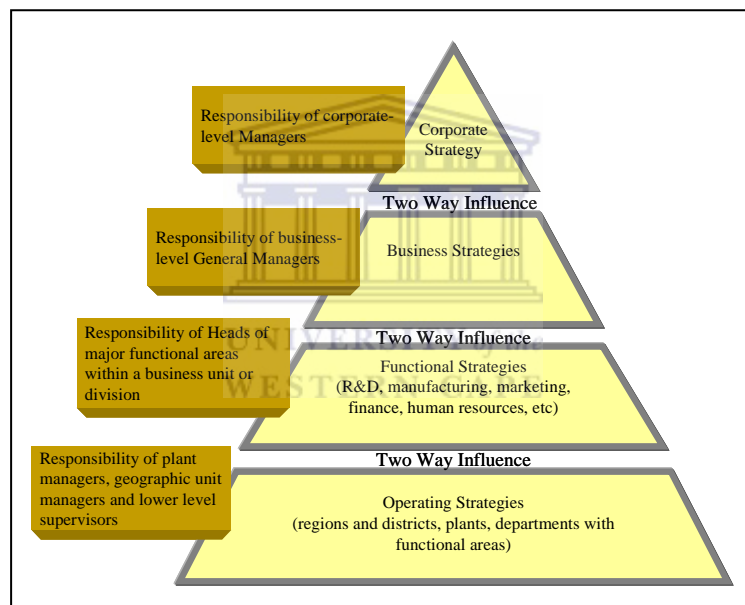


Figure 11: Strategy for Diversified Company (Source: Thompson and Strickland, 1996)

#### 4.7.1 Corporate strategy

If the company is a company that is involved in diverse markets, it has an overall management strategy for the organisational direction and considers the diverse markets or

industries in which it is doing business. Creating a corporate strategy involves four decisions about:

- How to achieve or maintain diversification
- The actions that can be combined in diverse businesses to improve overall, combined performance
- Creating synergy among related businesses and transform it into a competitive advantage.
- The overall investment priorities and direct resources in areas, which are more attractive for the business.

The strategies for business-, functional- and operational units are influenced by the strategy of the corporate company and vice versa. The next level to consider is that of a business company. Business companies are different to corporate companies in that it comprises a business unit only, whereas a corporate company has many businesses in one corporation.

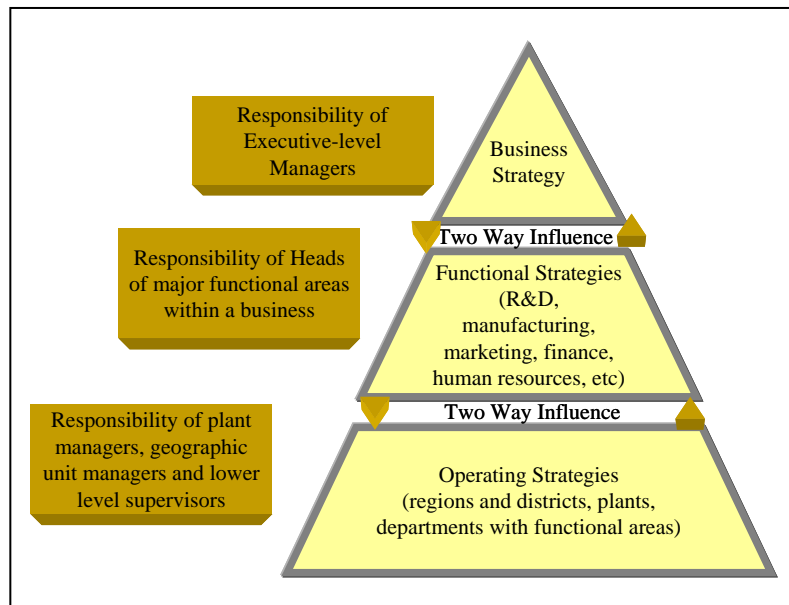


Figure 12: Strategy for Single Business Company (Source: Thompson A and Strickland AJ, 1996)



#### 4.7.2 Business unit strategy

In developing or creating a corporate strategy for the corporate level, business strategies for each of the diverse business units or specific business of the company, should also be developed in an effort to support the corporate strategy. Central to a strategy for a business unit is to build and strengthen the long-term competitive position of a company in the market place involving the following:

- Developing responses related to changes in the industry, economy, regulatory or political environment and other areas relevant on the business,
- Design competitive actions and approaches to the market that will ensure "...sustainable competitive advantage.",
- Combine the functional strategies of the functional departments and
- Address specific strategies challenging the company.



Business strategy supports the corporate competitive strategy, but addresses issues specific to the market within which it operates and adds value to the corporate strategy. Each business comprises of functional areas that are supported by a functional strategy. The operational areas and -strategies support the functional area and strategy. Where the business is a company rather than a unit of a corporation it does not align to any upward structures, but the functional- and the operational units align their strategies with that of the business.

#### **4.7.3 Functional Unit strategy**

The strategy of the functional unit is focused on a specific department or a key functional activity of the business, within the corporate organisation. It may for example be the management of a finance, - a research and development or - a management information section of the business. The functional strategy indicates the role that each department, within a business, will play in supporting the business- and the corporate strategy. It consists of the “how” of the activities, in achieving the goals of the business. The strategies of the functional units should be designed and implemented in a coordinated fashion, in an effort to eradicate strategic directional conflict. The functional strategy is, however, influenced by the operational strategy, which is addressed in the next section.

#### **4.7.4 Operational strategy**

The need for operational strategy is embedded in the need for direction for departmental units in performing daily tasks in achieving the targets and objectives of the business. The operational strategy completes the corporate, business and functional strategies of an organisation. If the corporate strategy is to improve market penetration through advertising,

the business strategy will be focused on a specific market segment, whilst the marketing and advertising department will design the strategy on how to achieve market penetration for the specific business. The specific unit within the marketing and advertising unit will develop a strategy around an advertising campaign. The operational strategy is at the bottom end of the strategic planning exercise, but is probably the most important to attain sustainable success in the overall achievement of the organisational strategy, because it is the actual implementation of the total strategic design (Strickland and Thompson, 1996)

According to Eichler and Kolehmainen-Aitken (2001) A payer or service user must ensure that the goals and targets that are set for the service provider will support the goals and targets of the service user. The service provider should thus also align its goals and targets with that of the service user or – payer. “The payment system must be designed and implemented with consideration of the goals, capacities and constraints of the health service providers.” It is contended that there is should be an alliance between the service payer and service provider, which should be used to sharpen the goals and targets each year (Schauffler, Brown and Milstein, 1999).

It is evident that, to implement a strategy successfully in a diverse environment, the strategies of the support organisations in the hierarchy should be aligned with the strategies of the upper levels. This alignment is what should take place where there are different levels of organisations that are responsible for rendering a similar service to the community. Their strategies should thus be aligned and coordinated so that the service is not duplicated. The management of organisational strategy is important to give direction to a company in the private sector. It is, however also necessary to consider how strategy is managed in the public

sector, as the present thesis is about the management of transfer payments and strategy in the public sector. The next section will consider strategy in the public domain.

## **4.8 STRATEGY IN THE PUBLIC SECTOR**

### **4.8.1 Introduction**

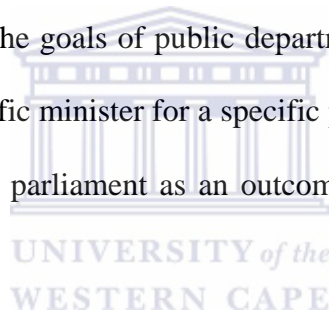
Strategy in the public sector is focused more on particular outcomes and containment of finances rather than a financial return on investments. This is evident from the prescripts in the PFMA, see section 4.8.3.2 below. The Public Service Act with the Public Service Regulations set the scene for service effectiveness, whilst the PFMA with the Treasury Regulations prescribe how the funds should be managed. It thus focuses on the efficiency of the service. Green (1998) did a comparative analysis on the application of private sector strategy in the public sector. The investigation focussed on the public sector activities in the realm of strategic management/planning (SM/P) and to develop a database of strategic planning practices, comparing the Civil Services of different countries.

The discussion was divided into three parts, which were:

- The relevance and effectiveness of applying private sector SM/P models to different areas of the public sector,
- Asking is there a life cycle of SM/P in the Civil Service, or can stages be leap-fogged by following “best practices”? And,
- The pitfalls in Civil Service SM/P.

#### **4.8.2 Private sector relevance and effectiveness**

The impression is that methods of private sector planning are of relevance to the public sector and created a change in how public departments are managed. According to Green (1996), the Public service planning, however, seems to be more of a textbook approach rather than focusing on the issues of aligning resources with the strategy or focusing on efficiency. This is indicative of managing by objectives (Green 1996). One of the added difficulties is that planning or goal-setting for public departments, is done in parliament or by politicians. This split in power causes a splitting in strategic vision. According to Green (1996), civil servants should only have to choose the process of achieving the goal rather than planning the goals. This is however not the case. It is common knowledge that operational staff through the head of a section design and manage the goals of public departments on behalf of the member of the executive council or the specific minister for a specific portfolio, like Health. The specific plan or goal is then approved in parliament as an outcome that should be achieved by the Minister of Health.



##### **4.8.2.1 The life cycle of SM/P**

Prior to the SM/P, the focus in creating efficiency was to do an organisational restructuring. This focus has now shifted towards "... recruitments, terms and conditions of employment and issues of authority and accountability..." in relation to the "... political masters." In terms of the study, there has been noticeable changes to focus on excellence in customer service. Changes that are evident are that planning has shifted from inputs to outputs, which was observed in New Zealand and Australia. The focus, however, is more on short-term planning rather than long-term planning.

There is little alignment or integration of the strategic plans with resource-, knowledge- and skills availability or vice versa or of plans across different departments that will enable an organisation to meet the objectives or political outcomes. Green does not per se indicate in his study whether there is a life cycle or not, but clearly shows that although there are changes for the good there are also concerns about what is not being done in the Public Sector (Green, 1996).

#### **4.8.2.2 Pitfalls in Civil Service SM/P**

Insufficient emphasis is placed on innovation, new service development, reinvention, or fundamental changes. The contention is that more lip service is accorded to hallmarks of good strategic management, as it was not very evident during the research.

The areas of concern that were identified by Green (1996), in the civil service, are measurements, performance indicators, audits and reviews, "... Clearly defined objectives, targets, goals, plans and standards of achievement ..." and information. Other matters of concern were costs, evaluation, prioritisation, systemic reviews and scrutiny. This picture is not surprising as reform and strategic planning is dependent on the finance- or treasury departments. Green (1998) criticises this approach as focusing too much on a "... narrow cost-based approach," This cost-based approach is the traditional financial tool for measuring organisational performance. The present thesis emphasises the need for public service to move beyond the realm of a cost based- or traditional financial approach to a more encompassing approach of planning and measurement. This approach was discussed under performance as the balanced approach (see subsection 3.3.4). According to Green (1999) the private sector's appraisal is predominantly about maximising profits (profit and cost

difference), whilst the public sector compares the benefit and cost. He contends that there are three differences between private and public sectors. In the public sector:

- the benefits gained is not necessarily of a financial nature,
- the wider effect that the activity will have on people and agencies, should be considered with due regard to the direct effects that are being measured and,
- Cost analysis is considered in terms of the value and real cost to the community, rather than the financial costs to the organisation.

In South Africa, the benefits that should be procured for the public sector, through public strategic planning is governed by legislation and regulation. This legislation aims to prevent the public sector from falling in the pitfalls as contemplated by Green above. The public-sector strategic planning in South Africa will be examined in the next sub-section.



#### **4.8.3 Public Strategic planning in South Africa**

There are varieties of documents that deal with strategic planning in the South African government sector. These are:

- The Public Service regulations, in conjunction with the Public Service Act
- The Public Finance Management Act of 1999 and regulations,
- The National Treasury guidelines for accounting officers and
- The National Treasury guidelines for annual reporting

Public strategic planning in South Africa must be done in accordance with the Public Service Regulation 1 of 2001 as amended and the Public Finance Management Act of 1999 (PFMA). This section will thus focus on these two acts.

#### **4.8.3.1 The Public Service Regulation (PSR), 1 of 2001 as amended**

In terms of part III A of the PSR, an executing authority must set measurable targets for a department. In terms of part III B, the executing authority must prepare a strategic plan.

The strategic plans must include the following:

1. A statement of the core objectives based on:
  - a. The Constitution of South Africa,
  - b. Legislative mandates,
  - c. Functional Mandates and,
  - d. The service delivery improvement plan as mentioned in III C of the PSR.
2. A description of the core and supporting activities that is necessary to achieve the objectives, without duplicating functions,
3. An indication of the activities that the department will perform internally and these that will be contracted out,
4. A description of the medium term goals and targets to be achieved,
5. A programme that sets out how No 4 above will be achieved,
6. Specifications of the information system that will:
  - a. Monitor progress made towards achieving the objectives, goals and targets and,
  - b. Support compliance with reporting requirements and,
7. Indicate how they will comply with the requirements of the treasury regulations.

In terms of part III C.1 (a), the main services should be identified and in terms of C.1 (d), the standards for the main service should be indicated as part of the service delivery improvement programme.

The PSR sets out broad guidelines for planning of a service, measuring the performance of the programme or service and reporting of the performance of a service. This leaves the door open for departments to develop specific plans for service delivery and indicators to measure performance. It is however clear that the indicators for measuring performance should be based on the service delivery and strategic plans. The Public Service Regulation regulate how the strategy should be developed but should be read in conjunction with the PFMA that directs how the strategy should be developed and managed within the financial framework.

#### **4.8.3.2 The Public Finance Management Act**

The South African Public Finance Management Act (PFMA) of 1999 is an outcomes-based budgetary framework, as plans need to identify the outcomes of services within specific budgetary constraints. A regulatory framework for strategic planning supports the PFMA. (Generic Strategic Planning 11 July 2002).

The generic content, according to the National Treasury Department, is as follows:

It must:

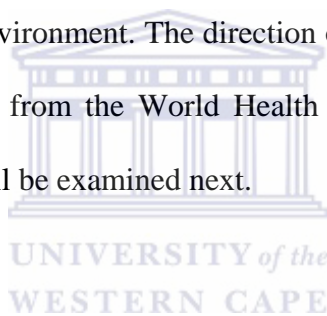
- be tabled in Parliament or the relevant legislature at least 7 days before the budget vote of the department is discussed,



- indicate the plans for three consecutive years and be consistent with the budget estimates of the institution,
- include the mandates that indicate the output deliverables,
- include policy and legislation that influence spending,
- include measurable objectives, expected outcomes, programme outputs, indicators and targets of the programmes,
- include details of proposed acquisitions, capital investments, rehabilitation and maintenance of fixed assets and management of financial assets and liabilities,
- include projections of income and receipts from the sale of assets,
- include detail of the service delivery programme,
- include detail of the information technology acquisition or expansion in reference to an information technology plan and,
- Include the requirements of Chapter 1, part III B of the Public Service Regulations (PSR) of 2001, which indicate the strategic planning according to the Public Service Regulations.

The strategic plan forms the basis for annual reports as required by sections 40(1) (d) and (e) of the act. Performance evaluation, monitoring and corrective action should be done in accordance with section 27(4) read with 36(5) of the PFMA and reported on, on a quarterly basis. In terms of the PFMA, strategic plans should be linked to the budget and must be tabled in parliament for discussion. The strategic plan must also include detail of what should be in the plan, for it to be accepted. Performance measurement in terms of the PFMA is based purely on financial outcomes whereas the PSR is based on service delivery. The reports to be made available in terms of the PFMA are based on the efficiency of the organisation, whilst the PSR examines the effectiveness of serviced delivery. The two regulations should thus be

read in conjunction with each other, to develop a strong, efficient and effective plan, performance measuring system and reporting process. The technical committee on finance proposed a generic format for strategic plans of provincial departments on 11 July 2002. See Table 7 in the Appendix. Although there is direction from the PFMA and the PSR on how strategy should be managed in the South African public sector context, direction is also given on how strategy should be approached in the health sector. Health strategies are set in different countries and organisations. It all impacts on what the outcome should be in the MDHS of the DOH of the PGWC. Strategies has been developed at a National level and on a Regional level in Africa. The latter is called the NEPAD or New Partnership for Africa Development strategies. It was, however not evident from these strategies, how a strategy should be managed in a health environment. The direction on how health strategies should be managed was more forthcoming from the World Health Organisation (WHO). The WHO perspective on strategy design will be examined next.



#### **4.8.4 Strategy in the World Health Organisation**

##### **4.8.4.1 Introduction**

Health strategy is dependent on internal and external strategies, processes and policy directions. It is influenced on a Global level by the millennium development goals and the World Health Organisation's (WHO) Corporate strategy. At a Southern Africa Regional level, it is influenced by the NEPAD health strategy. At a National level, it is influenced by National policies in health and other departments e.g. finance. At a Provincial level, policies of the Provincial Administration affect the Department of Health (DoH). The strategy of the Provincial department of health in the PGWC affects the direction that is taken by the MDHS.

The WHO is a specialised UN agency for health. The WHO was established in 1948, to promote the attainment of the highest possible level of health by all people. In terms of the WHO definition of health, health is not necessarily the absence of disease or infirmity, but a “... state of complete physical, mental and social well-being...”

The key functions of the organisation are to:

- “ Act as the directing and co-coordinating authority on international health work;
- Assist governments, upon request, to strengthen healthy service;
- Propose conventions, agreements and regulations, and make recommendations with respect to health matters; and
- Develop, establish and promote international standards with respect to food, biological, pharmaceutical and similar products”



The WHO functions independently from the rest of the UN system. The 192 member states govern the organisation and meets annually in Geneva at the World Health Assembly (WHA). The predominant representation is by the Ministry of Health. The WHA elects 32 individuals, who are qualified in the field of health and designated by the member states, to serve on the Executive Board for a three-year period. This Board meets at least twice a year. The WHO has a global mandate to focus on health problems, of mainly low and middle-income countries. One of the areas of advocacy from the WHO is to increase investments in the health of low-income countries. A report from the Commission on Macro Economics and Health (December 2001) indicated that to attain economic growth and overall development, investments in health are crucial. The WHO designed strategies on how it will achieve its manadate, which strategies will be investigated in the next subsection.

#### **4.8.4.2 The WHO approach to strategy design**

According to Tarimo and Webster (not dated) revisited report, of the World Health Organisation (WHO), almost all the countries in the world has strategies aiming at delivering health to all. There are, however, concerns that these plans were drawn up solely by health planners as opposed to joint planning between departments of health and other departments, whose activities impact on the health environment. In some instances, the goals and targets are not clear and the cost is undetermined. It is contended, furthermore, that realistic plans, with estimates of all the inputs, should be included in the health strategy, with a coordinated sectoral approach. It is also stated "... there is a notable lack of information on the expenditure of other health-related sectors, especially the private sector. It is further noted that strategies should respond to changes" (Tarimo and Webster, not dated). It is evident from this extract from the Alma Ata revisited report of Tarimo and Webster (not dated) that there are certain expectations from the WHO about what should be considered to develop a strategy for health.

The strategy should, basically, consider:

- External and internal forces on the organisation.
- Clear, realistic goals and targets set, within the resource limitations
- Planning within a collaborative, sectoral framework, where sectors that affect health are part of the consultative process to develop a health for all strategy.
- Planning and collaboration based on information
- Evaluation and monitoring tools as part of the strategy should evolve with the internal and external changes.
- Increased funding to health to assist in poverty eradication

The last bullet excluded, this approach is in line with views held by Thompson and Strickland (1996), Stoner and Freeman (1989) and Koontz and Wehrich (1988) as discussed earlier.

The WHO advises on how health strategy should be managed on a global level. In South Africa, although public strategy is influenced by the PSR and the PFMA, the WHO also has an influence on the direction that the department of health takes in terms of its strategy. The MDHS did not have its own strategy process and had to follow the prescripts of the PSA, PSR and the PFMA, but it may also design its strategy under advisement from the WHO. One thus has to consider whether there were in a strategy in place at the MDHS.

#### **4.8.5 Strategic Framework of the Metro District Health Service**

The Provincial department defines this area as Programme 2, in terms of Health 2010.

The strategic plan of the Metropole District Health Services (MDHS) was developed for the 2004 to 2007 Medium Term Expenditure Framework (MTEF) period. It was implemented at the beginning of April 2004. The strategic objectives were as follows:

- Implement the District Health Services by 2005
- Improve equitable access to health services
- Improve Physical facilities infrastructure
- Provide the full package of services at all facilities by 2010
- Implement nurse based PHC services
- Work towards stabilising the HIV/AIDS/TB epidemics as envisaged by the provincial plan
- Reduce the burden of disease through prevention and promotion

- Achieve full coverage of CHBC by 2010 as envisaged in the Provincial Plan
- De-institutionalise Chronic stable mental health clients
- Increase district hospital capacity to 0.8 beds per 1000 population
- Improve quality of care at all levels by 2010
- Increase generation of revenue by 10% by 2010
- Provide essential medicines at all times at all the facilities in the Metro Region
- Ensure effective monitoring and evaluation of services as envisaged by the province.

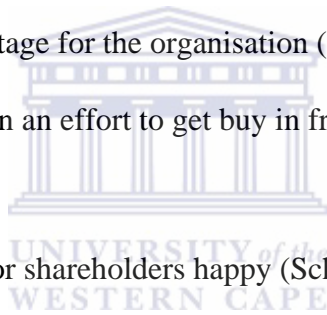
As can be noted, the strategy of the MDHS was developed after the present research commenced and was released during the interviews with the respondents. The strategy has fourteen areas that should be achieved, with timeframes for each area. It, however, focuses on health or clinical outcomes and does not provide a balanced approach to managing the service. In terms of the balanced scorecard, the department should manage the clinical or customer needs and also the processes, the finances and the learning, innovation and technology needs. Irrespective of the unbalanced approach to strategy design, developing a strategy still brings certain organisational benefits. These benefits will be discussed in the next subsection.

#### **4.9 BENEFITS TO STRATEGIC MANAGEMENT**

Strategic management does not occur in isolation of the direction in which an organisation wishes to embark. A reason thus exists for an organisation to embark in a specific direction i.e it must provide value or benefit to the organisation. Strategic management provides the follow benefits to an organisation:

- It provides guidance about the crucial points of what the organisation wish to achieve.

- It creates awareness amongst managers about changes, new opportunities and eminent threats.
- It provides reasons to managers to evaluate competing requests for budgets for capital- and staff expenses. This ensures that managers direct finances towards supporting the strategy and areas that produce results.
- Assists in unifying different strategic decisions by managers within the organisation.
- Proactive, management posturing is created and reactive and defensive tendencies for decisions are counteracted.
- Enhancing the performance of the organisation. (Schraeder, 2002 citing Hahn and Powers, 1999 and Schraeder et al, 1984)
- Create Competitive advantage for the organisation (Schraeder, 2002)
- Provide direction to staff in an effort to get buy in from staff members. (Schraeder, 2002)
- To keep the stakeholders or shareholders happy (Schraeder, 2002)



Strategy provides certain benefits to the stakeholders of an organisation, by addressing, and delivering on, their expectations. Strategy on its own is of little value if targets are not set or measurements are not in place to establish whether the strategy had been achieved. These targets should be aligned with the measures of stakeholder expectations. In an effort to establish whether the measurable objectives are being met or has been achieved, an organisation should measure the performance it wishes to achieve. The transition from strategy is a process of reducing the strategy to manageable portions. In this process of reduction, a link is created between strategy and performance. This link is regarded as critical success factors, which transposes strategy into performance indicators. Strategy and

performance are thus interlinked with each other. The link between strategy and performance is expounded upon hereafter.


#### **4.10 STRATEGY AND PERFORMANCE**

It had been established in the previous subsection that strategic management provides certain benefits to an organisation. This subsection will consider the link between strategy and performance. Organisational performance is established through a process of measurement. Broadbent (1999) indicates with his chapter 3, “What you measure is what you get!” that measurement is important to achieve results. Just as strategy is geared to achieve results, measurements are geared to measure the results. A measurement framework flows from the organizational strategy, is constructed from the organisational goals, objectives and strategies. Performance measurements flow from the strategy. To be able to know where one should go to, one should plan. To be able to know whether one arrived one should measure. Part of establishing whether one has arrived, is to develop indicators, markers or directors that will signal whether a specific result had been achieved. In enjoying the journey that one embarks on, one need to identify what will be the indicator or marker that speaks to one being on track or indicates ones arrival. After the indicator had been identified, it should be standardised to be an acceptable and useful tool to measure performance. Indicators are information that is used to signal whether a specific result had been achieved or are in the process of being achieved (Broadbent, 1999). According to Measure (2002), an indicator is a variable that measures one aspect of a program at a specific moment in time. In terms of this description, data about children will not be able to provide information on adults and in the same way information of the month of March will not provide information that indicate the



performance of December. The variable thus signals, according to Broadbent (1999), whether the specific result had been achieved or are in the process of being achieved within a specific timeframe. Performance measurement is a result of the implementation of the organisational strategy and should be linked to the strategy (Broadbent, 1999) and indicators are the tools that are used to measure performance. Before an organisation can really create an indicator, to measure performance, it is incumbent on the organisation to ascertain what the critical success factor is that will enable it to achieve its target.

Rockart (1979) contends that the critical success factors approach has the following benefits for managers:

- 
- Management can determine factors on which to focus and ensure that these factors are under continuous scrutiny.
  - Managers are forced to develop appropriate measures and constantly compile reports on these factors
  - The amount of information will be clearly identified and limit the cost of collecting unnecessary information.
  - Managers will focus on data that is significant for the success of management and not just what is easy to collect.
  - The information collected will be management specific and should thus be dynamic rather than fixed. Information systems should thus be aligned and realigned as the needs of management change.

Critical success factors are the management tools that link performance and strategy. Broadbent (1999) indicate that before a decision can be made about what the performance

measurements should be, the organisation should decide on the critical success factors. Critical success factors articulate the intended success of an organisation. The key performance indicators flows from the critical success factors and are measurements that are used in measuring the progress of the organization towards achievement of the strategic objectives. Broadbent (1999) adapted two frameworks to illustrate the link between strategy and performance. The one is adapted from Evans, Ashworth, Gooch and Davies, (1996), see Figure 13 and the other from Booth (1998), see Figure 14.

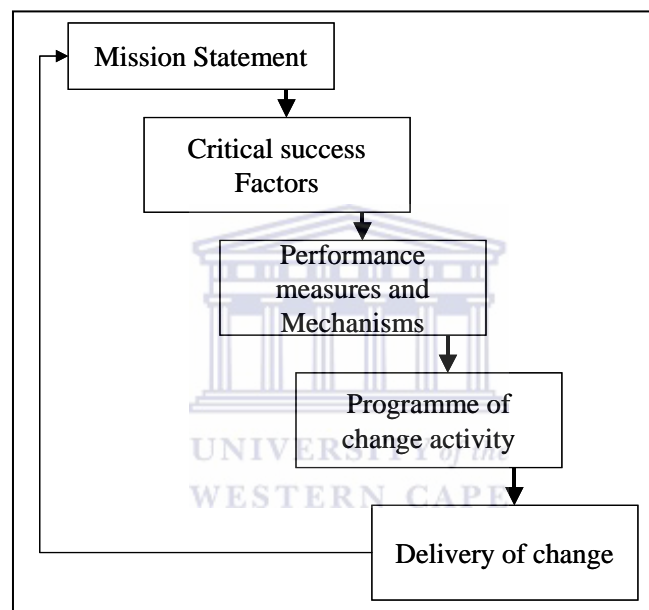


Figure 13: Abbey National Financial and Investments Services co-ordination of change activities Adapted from: Evans et al., 1996, Broadbent (1999)

Abbey National is a United Kingdom based financial services provider and the Abbey National framework indicates the link between mission, critical success factors, performance measures and mechanisms with activities. The organisation would design an organisational mission. The critical success factors are derived from the organisation mission. Performance measures and mechanisms are developed, based on the critical success factors. A programme for the change activity is developed and then implemented or delivered.



Figure 14: Measurement of programmes (Adapted from: Booth, 1998, Broadbent, 1999)

The figure above shows the steps that should be taken by an organisation to identify where the organisation should go, how the organisation can get there and what should be done to get there. This framework finds concurrence with the perception of Bytheway, (2001) that an organisation should establish where it is now, where they would want to go and knowing how the organisation will get there. For an organisation to know where they want to go they should have a good idea of where they are at a given moment in time. In terms of Figure 14 an organisation need to decide on its mission. The organisational goals are then identified. Objectives are set, based on the mission and the goals. The strategy is then designed in terms of the objectives that had been set. Plans should then be developed on how the strategy will be implemented, with actions that should be followed, to ensure that the outcomes are met. When the strategy had been designed, a measurement framework is developed to measure the achievement of the goals and to measure whether the organisation is on track with the implementation of the strategy. Critical success factors are then identified, on which

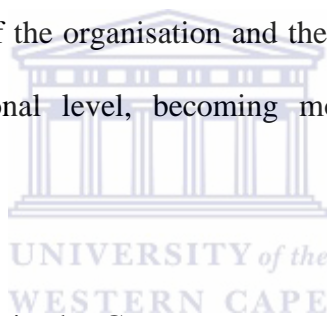
performance indicators are based. The critical success factors measure the plans that had been decided on whilst the key performance indicators measure the outcome of the actions that had been or should have been implemented. As can be noted, both frameworks link the strategy with the key performance indicators. An organisation thus develop a strategy, and based on the strategy develop critical success factors. The critical success factors will indicate what the key performance areas are of the organisation. The framework, however, does not address the conventional approach to start with where the organisation is now, as in the model of Bytheway (2001).

In summary: critical success factors are the links between strategy and performance. Critical success factors are guides to deciding which performance measures should, strategically, be focused on. It will indicate what is needed for a management information system so that managers can focus on managing the organisation based on appropriate and significant information. Rockart's (1979) contention above also indicates that critical success factors should assist with the information needs of managers.

#### **4.11 SUMMARY OF STRATEGY LITERATURE AND TOOLS**

The role of planning in strategic management is found to be very significant. In creating a plan the crafter needs to consider the cultural perspective of the stakeholders, the framework that defines strategy, the current organisational position and where the organisation wants to create sustainable advantage.

In the public sector, the approach is more on the outcome of the service provided, than to gain strategic advantage. Strategy cannot be embarked on without following a particular process, as indicated by Koontz and Weihrich (1988). The process of analysis encompasses both internal- and also external processes. The change of milieu should be directed on the internal organisational factors as well as the external factors that influence the competitiveness of the organisation. To ensure that the strategy is successful one needs to follow specific steps and evaluate the strategy in terms of known criteria, as indicated by Rumelt (1980). If the organisation is functioning within a corporate sphere, it should align its strategies with that of the overarching organisation or structure. It should consider corporate-, business-, functional- and operational directions. The corporate part of the business will set the trend for the other sections of the organisation and the plan will be narrowed down as it devolves down to the operational level, becoming more specific within a business-, functional- or operational unit.



It is evident, however, that even in the Government strategy is necessary. In terms of the PFMA and PSA each Government Department should have a strategy in place that is aligned with the organisational resources. The latter alignment process supports the contention of Rumelt (1980) that it must be feasible to implement the strategy and there should be consonance with the available resources and knowledge. The strategic plan in terms of the PSA should indicate the plans of the organisation, whilst in terms of the PFMA the strategy should indicate how resources should be utilised in relation to the strategy. What is not that clear is which one will have preference over the other if there is conflict.

Green (1998), spelt out this conflict and indicated that it was found that the Treasury- and Finance Departments drove innovation and change, in the countries where he did his

research. It makes sense that because of the cost-based approach by Government Organisations, preference would be afforded to the PFMA. Green's (1998) perspective is that Departments should drive their own strategy and should be supported by Treasury- and Finance Departments. Thus, preference should be given to the PSA and be supported by the PFMA. Green (1998) contends that little attention is given to organisational innovation, when a strategy is developed. This innovation process is hampered, because the Treasury- and Finance Departments have a cost-oriented focus in leading innovation and change. This move towards change and implementation of strategy should be driven by the Departmental strategy and only supported by the Finance- and Treasury Departments. In South Africa there are two regulations that provide a strategic plan. It is the PSA and PFMA. The question begs, whether the financial, PFMA, has preference over the PSA, or whether there is synergy between the two or whether they can be considered *pari pasu*. According to the approach by Green (1998) it is preferable that the PFMA supports the PSA. Green (1998) continues in his summary with a question on whether Civil service is able to move beyond financial measures and productivity. The perception is that Green (1998) contends a more balanced approach to strategy development and performance measurement, and that departments should focus on what their business should be and that the strategy should be department led and not led by finance and treasury. This *per se* does not mean that finance and treasury regulations should be ignored. It should provide guidance and support on how the finances should be managed and controlled.

The literature supports an approach where all role players form part of the development- and implementation of the organisational strategy. The WHO, that is the global player in health matters, supports an encompassing- and inclusive process. In terms of this process, all role players have to be consulted on the organisational strategy. The WHO also indicates that

roleplayers should indicate how they would assist in implementation and resource sharing. The approach, in designing strategy, is also indicative of differentiating between services and allocation of resources. The focus is thus more on creating health benefits for poverty eradication, rather than social upliftment or education.

In creating a strategy, the corporate-, business-, functional- and operational goals should be aligned to create corporate success. In strategising in a health service environment, the organisation needs to have clear and specific goals. What is evident from the planning in health, is that very little consideration is given to either the plans that should be achieved by upper levels nor the planning process or strategy format of the PFMA or the PSR.

Private and public sector strategies seem not to differ too much from each other, as Green (1998) contends. What is important to note is that each will have to follow a process of planning, organisational alignment of strategies and resource alignment. They should also decide on the critical success factors, the KPI's and implementation. Strategy is thus a necessary process to ensure that an organisation creates strategic value for the clients to whom the service is provided. In health planning, this process should consider the strategies of all the levels in the system and the internal and external milieu that impact on health and the stakeholders on whom these factors may impact.

Extensive consideration has been afforded to the literature, because of the extent of the topic at hand. The literature and the empirical investigations, however, need to find coherence during an investigation. The next chapter will address the empirical research and will thus expound on the research design and methodology.

## CHAPTER 5

### 5. RESEARCH DESIGN AND METHODOLOGY

#### 5.1 INTRODUCTION

How can an information-based strategic framework be used to determine the optimum level of financing for a project or service?

The problem that was investigated, through this research, was the existence of a process and a formula or calculation that would indicate how much a service provider should be financed for a service, based on its performance, specifically in the MDHS of the DOH of the PGWC as the service user and LA as the service provider. The research did not propose to examine the existence of performance budgeting, but rather examined the basic truth of performance financing. The assumption is that performance measures and financing exist. The aim was to investigate how they exist together, the interpretation of the managers about its existence and the use of a formula to establish the level of financing.

The research design functions as a link between the questions and research implementation. It is a plan for how data will be collected and analysed. Mouton and Marais (1996) perceive the research goal as an indication of what researchers wish to attain through their research. The research goals of this study were to explore and explain the existence of outcomes based financing and a formula that would indicate how much a person or organisation should be financed for a service or project. Because the study was an exploratory and explanatory study, it aimed to gain new insight into the central concepts and constructs, determine priorities for future research and develop a new hypothesis about the phenomenon.

The aims of this research were thus to explore and explain:



- The existence of a best practice model on a process that is followed when a service user transfers funds to a service provider and the existence of a formula when funds are transferred;
- What the process is that is followed by PGWC: Department of Health when funds are transferred to L.A. and whether a formula is used to calculate how much money should be transferred;
- The perception of managers in the PGWC: Department of Health about the management of the transfer process and the existence of a formula when funds are transferred to Local Authority;

Hence, this chapter will capture the processes that were followed to identify the sample population, the method of collecting the data, the tool for collecting the data and how the data were analysed.



## **5.2 RESEARCH DESIGN**

The common classifications of research methods are quantitative or qualitative methods (Hackney, 2001). Quantitative research is focused on numbers or quantifying issues. Qualitative research focuses on the intangible knowledge of the sample. Although the type of research is qualitative, it is also applied research as it addresses the existing issue on how the transfer process should be appropriately managed.

The planned research design was as reflected in Figure 15 below.

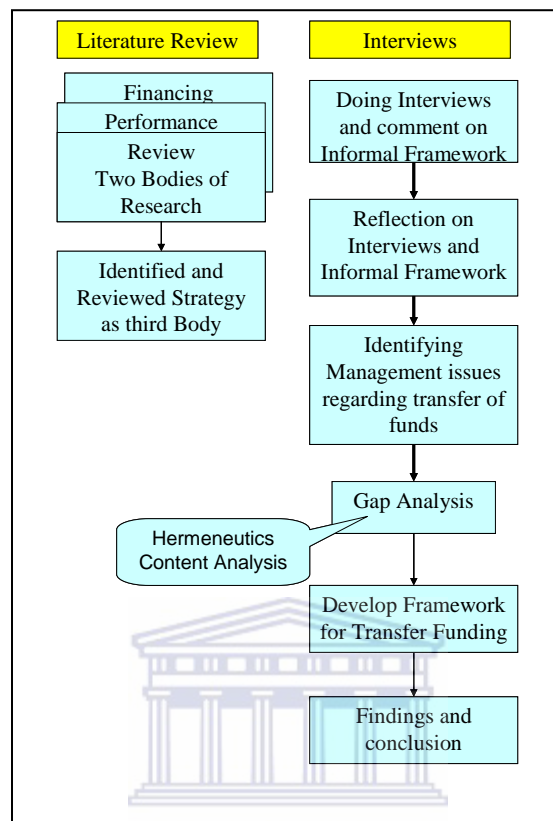


Figure 15: Planned Research Design (Source: Author)

The research design was to do a literature review and an empirical investigation into the process and formula. The literature review commenced with a review of the finance and performance literature. The literature review aimed to identify a best practice model and a framework for transfer funding in terms of the process and a formula. This review indicated that strategy is pivotal in managing strategy. The three bodies of research were then jointly reviewed. The empirical research was to focus on the process and formula that was used in the PGWC and the perception of managers about the process and formula and the informal framework. In the analysis, hermeneutics was used as a mode of analysis and to establish the gap between the literature and the empirical investigation.

The research design is qualitative in nature as it examines the opinion of managers about the process that is followed to do transfer funding and whether a formula is used to establish how much funds should be transferred. The research investigated intangible knowledge, of the sample population, about the transfer of an outcomes-based funding and specifically the transfer of funds, according to the PFMA, within a strategic performance environment. Mouton and Marais (1996) identified these two approaches with a third methodological approach or research methods, which is the participatory action approach.

In a participatory action research (PAR) process, the participants of the research jointly influence the knowledge of participants with the researcher through a process of self-reflection. The researcher identifies and illustrates concerns, beliefs and values in conjunction with participants. Theory and concepts are developed as the research progresses and participants are interviewed (Terre Blanche and Durheim, 1999). The researcher discussed the research with one of the managers at the Metro Regional level, who was involved in the transfer of the funds. The role player was used to reaffirm ideas and to develop the framework for the interviews. He, however, was not interviewed. The discussions, with the role player, were not recorded either.

The main design of collection was qualitative and the analysis was based on hermeneutics. Hermeneutics will be addressed in the section on data collection and analysis, following the research sample. The actual research that was followed, was as reflected in Figure 16. See a summary and explanation of the figure in 5.7

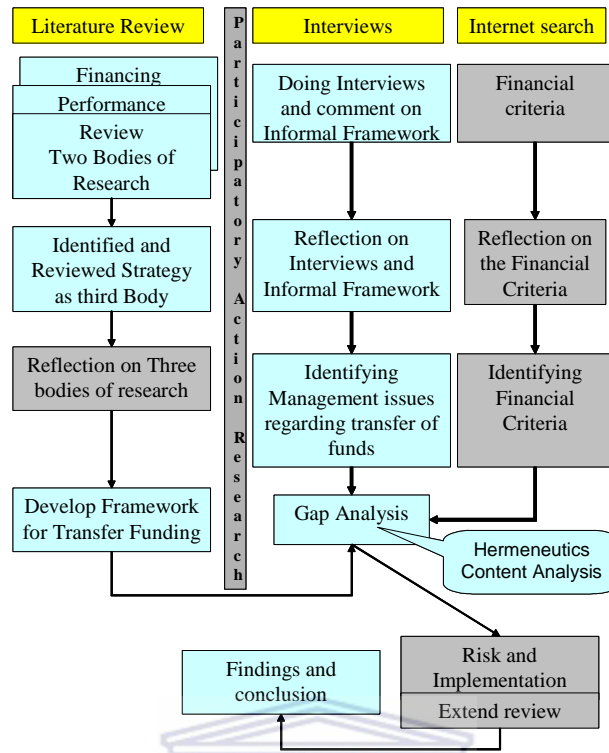


Figure 16: Actual Research Design followed (Source: Author)

In the next sub-section attention will be drawn to the sources of data.



### 5.3 SOURCE OF DATA

According to Mouton and Marais (1996), one identifies the unit of analysis once a decision had been made on the broad area of investigation. The broad area of investigation is the area of transfer funding. They also considered the unit of analysis to refer to individuals, groups, organisations or social artefacts. Terre Blanche and Durheim (1999) agree with Mouton and Marais (1996). Social artefacts can be regarded as a unit of analysis, which is the product of human action. For the purpose of this study, the unit of analysis was the opinion of managers about the transfer process and the existence of a formula. The managers were the sources of data from whom the unit of analysis was extracted. The primary sources of data were the

people that were interviewed and the tape recordings on which the interviews were recorded. The secondary source of data was note-taking during the interview process.

The sources of data complied with specific characteristics. These characteristics were:

- Managers
- At PGWC who are involved in the transfer of funds and
- At LA who is involved in the receipt of the funds.

The characteristics of managers were further refined to be deputy directors and higher-ranking officials at Provincial level in the PGWC and assistant directors and higher-ranking officials at Metro Regional level in the PGWC. The LA person was the Director of Health Services. The sampling procedure for identifying the sample was purposive rather than convenient because the assumption was that these managers are at the most appropriate level to indicate how the process is managed and whether a formula is used to establish the level of funds that should be transferred. The managers were all from the departments of health from either PGWC or from LA. The PGWC provides a health service throughout the Western Cape. The LA provides a primary health service to the people of the City of Cape Town. Both these organisations are situated in the Western Cape, in South Africa.

Having identified the sample from where the data would be collected the attention shifted to how the data should be collected. This brings the discussion to consider the instrument that was used to collect the data.

## 5.4 INSTRUMENT

A three-stage approach was adopted to conduct the interview. The first stage was unstructured, followed by a semi-structured approach and concluding with a review of the informal framework. The unstructured and semi-structured approach was followed as it is freer flowing and allows for prompts to clarify information, as indicated by Brink (1996) and Laws, Harper and Marcus (2003). This type of interview follows a flexible research strategy and allows the researcher to gain more insight into the opinions of the participants. Deductive reasoning was used to conclude that a person is less likely to provide incorrect information when one is confronted by the presence of the person doing the interview, than when the person is allowed some time to reconsider the questions when alone. This reasoning was based on literature from Brink (1996), Welman and Kruger (2001), Bailey (1987) and the experience of the researcher during family and individual therapy interventions, in psychiatry. Brink (1996) and Bailey (1987) indicated that one of the advantages of using an unstructured interview was that it allows for prompts. The researcher is in a position to confront the respondent, about incorrect information. Welman and Kruger (2001) indicated that the researcher have more control to gain the confidence of a respondent, during an unstructured interview, if the respondent is evasive or try to elude the question. According to Bailey (1987) the perceptions of the respondents can be recorded instead of the respondent repeating answers of other respondents, or according to Welman and Kruger (2001) someone else does not provide the answers on behalf of the respondent, which may happen when a questionnaire is given to a respondent completing it on his/her own. The researcher conducted interviews with clients and sent questionnaires to clients for pre-admission information. This experience has shown that when a client have more control at home to consider a question, they are more likely to provide an answer that will appease the therapist or manipulate the situation then to provide the correct information. The unstructured

approach was embarked on first, to moderate the introduction of researcher bias. A semi-structured- or a structured approach may have influenced the perception of the data sources thus the approach to first start with an unstructured interview.

Unstructured and open interviews were followed as it allows the research subject to “define the agenda” (Mouton, 1996). According to Bailey (1987), semi-structured interviews provide certain advantages. The advantage of using a semi-structured interview is that it is flexible; it provides a better response rate than other questionnaires, there is more control over the environment and spontaneous answers can be recorded immediately. It compels the respondent to provide his/her own view instead of repeating answers from other respondents; the interviewer can ensure that all the answers are completed or all questions answered. It furthermore allows the interviewer to arrange interviews with the respondents, record the exact time, date, place of the interview, and allow the interviewer to manage and explain questions that are more complex. An unstructured interview will thus provide the advantages of the semi-structured interview on a bigger scale.

As much as semi-structured interviews has certain advantages, according to Bailey (1987) there are also certain disadvantages. The disadvantages are regarded as cost, time constraints by the interviewer and interviewee, interview bias, no opportunity for respondents to consult records. Other disadvantages are the inconvenience to respondents due to long interviews, if the respondent wished to stay anonymous the anonymity of the respondents could be compromised, questions and answers are less standardised for comparison purposes and there could be an issue with accessibility if respondents stay far apart. Unstructured interviews provide the same dilemmas, but questions are not standardised.

These disadvantages did not have a major impact on the research. The researcher did not incur cost to interview the sources of data as the research design only recognised the sources from the departments of health in the PGWC and the LA. The sources of data were liberal in allowing time as they allowed for one and a half to up to two hours for a session and did not pressurise the researcher to limit the time. The sources of data were easily accessible in terms of distance from where the researcher was situated, but were difficult to access for a specific time. The latter occurred because the researcher had to accommodate the source of data at a time when it was suitable for both parties to meet. The intention was not to have standardised questions, to prevent the introduction of research bias.

The questions that were asked were a combination of open-ended and closed-ended questions. The open-ended questions were used throughout the three-stage process. It was used to elicit the views of the data sources and to minimise researcher bias. The closed-ended questions were used during the semi-structured interview to elicit the existence of one of the areas of research. This was then followed up with open-ended questions, to establish the view of the data source on how the area influences the process.

The unstructured interview initiated discussions about the process. The semi-structured interview explored the following areas:

- Are strategic plans developed for the business and what process is followed?
- Are performance-indicators identified, is it in line with the strategic plans and is it pitched on an output level?
- Are organisations that receive funding subjected to performance appraisal before funds are transferred and how do the evaluator know that an efficient, effective and transparent finance system (as per PFMA) is in place, at the receiver of the funds?



- Who makes the decision for transfer of funds?
- What is the basis for the decision to transfer funds?
- How is the performance indicator reformulated to indicate the level of finance?

The review of the informal framework was to establish a best practice framework that can be used to appropriately apportion funds for the service. Responses from the data sources were varied on the interpretation and usefulness of the framework.

The three-stage interview was used to elicit as sufficient information as possible to identify the views of the managers on the process and a best practice model that leads to the collection of the data.

## **5.5 DATA COLLECTION AND ANALYSIS**



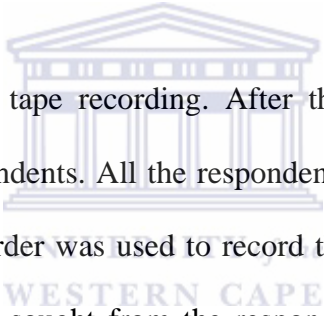
The questions during the interview were based on the four highlighted areas namely:

- Strategy
- Performance, which is the difference between the agreed outcomes in the SLA and the outcomes realised.
- Finance or funding and the
- Formulaic expression

The method of data collection was through unstructured- and semi-structured interviews. Hermeneutics was used as the method of data analysis. In using hermeneutics as a method to collect data, the analysis occurs at the same time. The parts are interpreted in relation to the whole and the whole is developed in conjunction with the parts. It is a cyclical process where there is constant movement between the contextualisation of the parts and understanding the

intention of the respondent in relation to the parts and the whole, when a response is given. (Terre Blanche and Durheim, 1999).

The Metropole Regional Director was approached about the research. He informed other role players in the region about the research and requested their co-operation to make the research a success. The respondents were contacted to arrange interviews and to explain the reason for the interview. An arrangement was made for an appropriate date, time and place. The place did not prove to be a substantive problem. It, however, proved difficult to arrange a time and date due to the busy schedules of the respondents and the researcher. The period in which the research was done proved to be over an extended period.



New tapes were bought for the tape recording. After the interviews were arranged, the interviewer travelled to the respondents. All the respondents preferred to have the interview in their own offices. A tape recorder was used to record the interviews in conjunction with note-taking. Permission was first sought from the respondents to use this dual medium of recording. Introductions were done, recorded and noted. The date, time and place of the interviews were also recorded and noted

The person was then asked whether they agreed to be interviewed. All respondents agreed to continue. Before the researcher proceeded with the questions regarding the specific areas, the researcher enquired whether the respondents are comfortable and ready for the interviews. The respondents were informed that data will be confidential and their anonymity is assured. The researcher would then ask the name and rank or position of the respondent. The unstructured interview was initiated with an open-ended question. The first question that was posed to all the respondents was whether they could explain what the process is that is used

to manage the transfer of funds from the Provincial Government of the Western Cape to the City of Cape Town. After the respondents completed the explanation, the researcher proceeded to the semi-structured interview.

The progression to the semi-structured interview was dependent on the explanation that was given by respondents on the transfer process. If any of the areas were not addressed, the respondents would specifically be asked whether it existed in the process and what influence it plays in the whole process. If any of the answers were unclear, clarity was sought in terms of the answer as it pertains to the specific area and how it influences the whole process. The questions posed during the semi-structured interview were not planned in advance, but followed the trend of asking whether a specific area exist. Closed ended questions were used for this. If the answer was “Yes”, the respondent will be asked to explain the role that the specific area plays in the process and how it assists on the process. If the answer was “No” the matter would not be pursued as the aim was to establish whether it existed or not and the impact on the process.

After the interviews were completed, the framework as Figure 17 was shown to the respondents and explained. The respondents were asked to respond on whether the framework could assist in addressing a best practice model for the transfer of funds. The responses to the framework were varied. The framework provided the basis for the unstructured interview and was extracted from the literature review and input by experts. The one expert was a financial manager that was employed by the department of health and the other was a visiting lecturer from the United Kingdom to the University of the Western Cape.

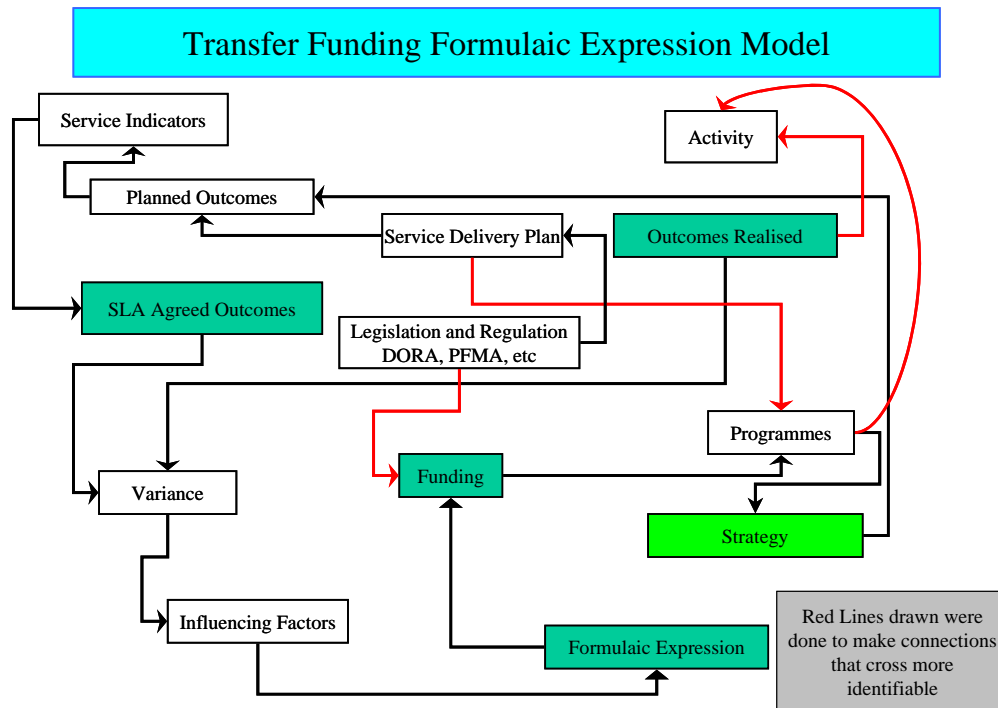
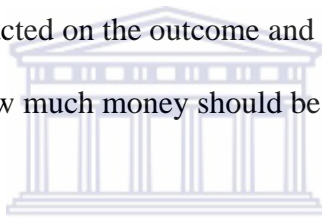


Figure 17 Draft Formulaic Framework (Source: Author)

It needs to be noted that the framework is informal. It was used to get the research started and thus does not warrant a detail discussion here. There are missing areas and the framework was not optimised. The framework is organised around the highlighted areas as main features and features as subordinate to the main features.

As can be seen there are five main features. These are strategy, service level agreement, outcomes realised, formulaic expression and funding. The framework is organised around regulation and legislation. The legislative and regulatory framework was the source from which the organisation derives its mandate. The legislation and regulations were the Constitution, the division of revenue act, the PFMA, the PSA, the PSR and the Health Act. A strategic plan should be developed for the department. A service delivery plan that is aligned with the strategy should be drawn up for the department and each programme that implements a specific service to the community. The service delivery plan and the strategies

should have specific outcomes that must be met. The department must decide which service should be outsourced or whether existing outsourced services should continue. Indicators are developed by the outsource organisation that will measure the planned outcomes. A service level agreement is drawn up for each outsourced service. The service level agreement would include the outcomes that should be achieved by the service provider. Activities are implemented to meet the agreed or planned outcomes. These activities are measured through indicators to establish whether the service targets are met. After the service had been delivered by the service provider, the variance between the planned outcomes and the outcomes realised are measured. This would consider factors that would have assisted in the realisation of the outcome and factors that may have impeded the realisation of the outcome. Considering that factors that impacted on the outcome and the realised outcome the formulaic expression is used to calculate how much money should be afforded to the service provider.



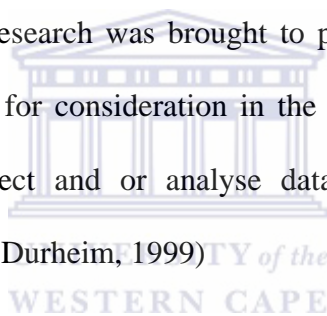
After each interview, the recordings were analysed in terms of the available information in the literature review. Interviews were analysed and verified whether there were any differences between each interview compared with the recordings of other respondents and any change in relation to the framework and the areas of investigation. A decision was then made to add any themes or to stay with the same themes.

None of the respondents declined to participate. All participated voluntarily. The number of respondents that were approached were five. All five agreed to participate in the research. The interviews took place from 02 October 2003 until 22 April 2005. This happened over such a long period because it was difficult to synchronise the diary of the participants and the researcher. The fifth respondent was excluded because she was not involved in the transfer of

funds to LA but transfer of funds to Non-Governmental Organisations (NGO's) or Community Based Organisations (CBO's).

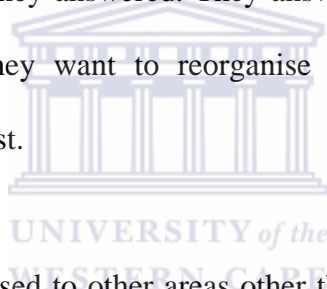
Verbatim transcriptions are not included here. Inclusion of the verbatim transcripts could compromise the anonymity of respondents due to the small sample size.

On completion of the three stage interview, the identified themes were reviewed with the literature. This was done to establish coherence between the literature and the data sources and because the respondents identified a theme that was not evident in the literature, before the interviews. Upon a second reflection on the literature, after the interviews, the theme that was identified in the empirical research was brought to prominence. The reflection on the literature exposed a further area for consideration in the framework. The process of using more than one method to collect and or analyse data is regarded as methodological triangulation. (Terre Blanche and Durheim, 1999)



## **5.6 BIAS**

Research in an environment where the researcher is known will inevitably introduce some form of bias. An example of such an environment could be an organisation or field where the researcher is working. The bias could be more pronounced in participatory action research because the knowledge, attitudes and beliefs of the participants could be influenced by the researcher or the research questions. Some researcher bias could have been introduced because the researcher was known to the respondents and the research was conducted in the department of health of PGWC, where he researcher was employed, and LA, whose information about health was collected by the researcher. The respondents however did not seem hesitant or cautious when they answered. They answered immediately and did not re-question each question as if they want to reorganise their thoughts. Answers seemed straightforward, earnest and honest.



The research will not be generalised to other areas other than the department of health. The consequence of bias will thus not impact anywhere else, should there be any real or perceived bias.

## **5.7 REALISATION OF THE RESEARCH**

The investigation was based on a literature review and an empirical research method. The empirical research was qualitative and interpretive in nature. The investigation focused on the management of transferring funds and the existence of a formula before funds are transferred. This qualitative approach differs from quantitative approaches in that it does not aim to establish the percentage of concurrence or agreement among participants, but to establish

some kind of best practice, using available knowledge, belief and perceptions of the transfer process, and the possibility of a formula to reformulate performance into finance.

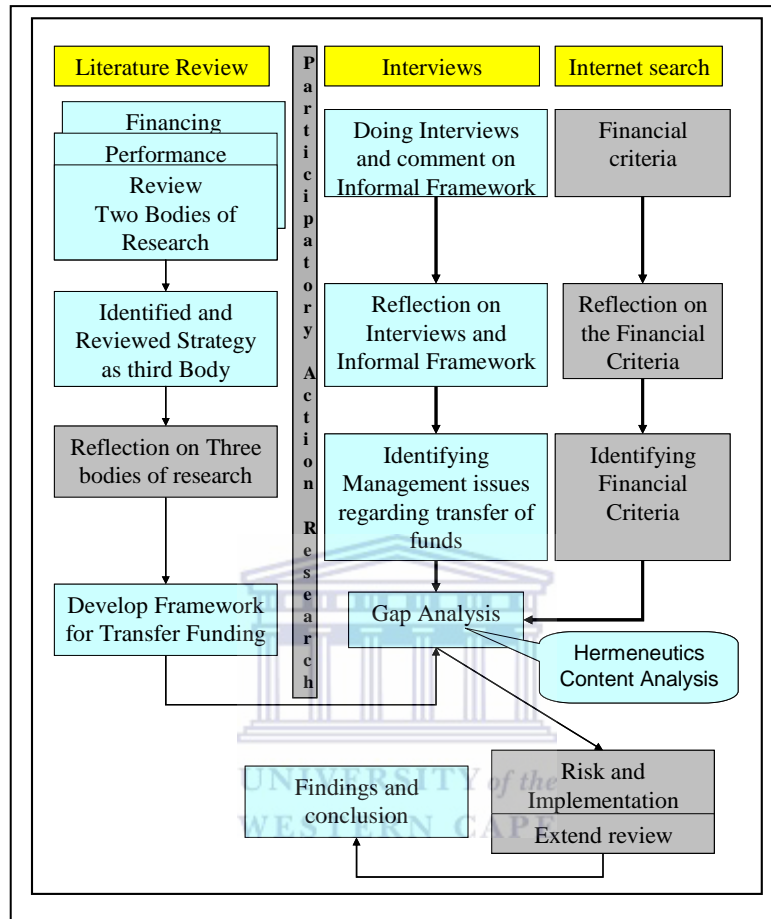


Figure 18: Final Research Design and method (Source; Author)

According to Terre Blanche and Durheim (1999), interpretive studies do not have a distinct point where data collection stops and analysis begins. The process is a gradual reduction in focusing on the one and a gradual increase in focusing on the other. The process is interchangeable but also intertwined. In the beginning of this research, the focus was more on data collection; as data was collected the focus shifted between data analysis and collection; at the end the focus changed to place more emphasis on analysis. Data was collected about the unit of analysis and compared with data that was collected from previous respondents, to establish if the research objectives had been met. The real life events must give perspective to



the unit of analysis, the objectives of the research and the research question (Terre Blanche and Durheim, 1999). The hermeneutical approach lends itself well to this approach of cyclical reference to the parts and the whole. This research followed the process as described by Terre Blanche and Durheim (1999) where there was a focus on the whole, then each part and then the role each part contribute towards the whole.

Although the planned design was as reflected in Figure 15, the final process that was followed, was as reflected in Figure 16 and Figure 18. The original research design was followed, but to clarify the concepts and processes and to identify appropriate literature it was necessary to embark on other processes. The Internet research was done to identify which criteria are used by financial institutions that provide funding to service providers. The PAR became part of the process as one of the managers was used to reflect on the ideas of the research, to identify appropriate literature in the PGWC: DoH and to establish the process that was followed by the PGWC: DoH. He did not form part of the managers that were interviewed, during the interview process, as he was part of the process before the research commenced and was used as a source person. After the interviews with the managers a fourth area was identified. After a second review of the literature it was identified that risk should be part of the framework, but at the same time it was identified that implementation is crucial to ensure that the strategy is brought to fruition.

Normally when qualitative findings are presented, it is done under the identified themes or concepts. It is, however, much easier to present the findings under the literature review and the process that was followed to collect the data, because of the diffusion in the data collected during each of the collection processes. Some respondents elaborated on some areas during the unstructured interview, whilst others elaborated on the same areas during the semi-structured interview.

## 5.8 SUMMARY

This chapter discussed the preparation of the empirical phase of the study with a view to explore and explain:

- What the process is that is followed by PGWC: Department of Health when funds are transferred to L.A. and whether a formula is used to calculate how much money should be transferred
- The existence of a best practice model on a process that is followed when a service user transfers funds to a service provider and the existence of a formula when funds are transferred.
- The perception of managers in the PGWC: Department of Health about the management of the transfer process and the existence of a formula when funds are transferred to Local Authority.

An unstructured questionnaire was designed, based on the available literature. A hermeneutical approach was taken to collect information and to analyse the data. Collection and analysis were done in conjunction with each other or as the research progressed. Methodological triangulation was used to review the collected data with the available literature and the documentary evidence. The answers did not prompt for adjustments in the areas that were investigated. It was only when the last respondent was interviewed that a new area was addressed. This new area was reviewed with the literature and found to have justification to be included in a further study of this nature. The review of the literature also illuminated a second area that should be included for further investigation.

The sources of data or participants that were used were managers who were employed in the respective departments of health in PGWC and LA. It was assumed that they are at the most appropriate level to understand and know the dynamics of the transfer funding process. The design of the current study evolved into a process of analysis, which will be addressed in the next chapter.



## CHAPTER 6

### 6. PRESENTATION OF FINDINGS

#### 6.1 INTRODUCTION

The findings will highlight the issues that the researcher had to deal with during the research process. This includes the multiplicity of complexities. During the research, the researcher had to contend with complex challenges in terms of the environment that was research and the search for available academic material. Attention will be accorded to the availability of best practice models in transfer funding, which includes the formula that should be used and the process that should be followed to manage transfer funding. The tools that are available for managing strategy and performance are areas that will be highlighted. Extensive attention had been given to these areas in the literature and the finding will address the issues appropriate to the model for transfer funding. The links between the three areas as it pertains to the literature will highlight a gap between performance and finance. The findings in the literature highlight the processes, the global and South African context.

The section on the interviews sheds light on data that were collected during the unstructured interviews, the semi-structured interviews and the informal framework. The work in the aforementioned three areas is presented in a table of interview findings. In the summary of the interviews, direct responses of the respondents are quoted in English and Afrikaans. Afrikaans responses were translated into English, to make it easy for English readers to identify the responses. The summaries were divided into the two broad aims and under the second aim; the three more focused areas were attended to. It materialised from the literature review and the interviews that a fourth area should be investigated. The data of the interviews were triangulated with the literature. It was confirmed that a fourth area, namely risk, should

be included in the framework, but the review also highlighted a fifth area, namely implementation. An important feature that assisted in the research was the participatory research. During this process, important features of the transfer process and responses from respondents were counter-checked with a finance manager, who had extensive experience in the transfer process. The findings are attended to next.

## **6.2 FINDINGS LITERATURE REVIEW**

### **6.2.1 Dealing with complexity**

#### **6.2.1.1 Hierarchy of the Global Health System and impact of planning on MDHS**

The hierarchy of the organisations that influence the MDHS is complex as multiple organisations has an impact on the service that should be provided by the MDHS. Figure 2 is used to provide a simplified view of the organisations that impact on the MDHS. See page 3. Although this view have been simplified, the interaction and process in and between the organisations are quite complex. Some work together whilst other are separate entities that provide their services on their own.

#### **6.2.1.2 Research process and data collection**

During the research process, it was difficult to find information on the first aim. When the information became available, it provided a limited perspective on the concept of pay for performance. The limitation was that the tools that are needed to support the concept of pay for performance was not evident from the literature.

Performance management systems changed during the time of the research from the 1<sup>st</sup> generation of balanced systems to the 3<sup>rd</sup> generation of balanced systems. Literature thus was

difficult to access but also additional information became available during the research. This called for constant adaptation of the concepts in the framework and a decision on when to stop inclusion of the available data. To create an end to the constant changes it was decided to include literature up to June 2005.

An integrated approach to use the different tools was also not evident from the literature that was used.

### **6.2.1.3 Restructuring or changes in Provincial Health and MDHS**

The department of health embarked on a restructuring programme at the time when the research commenced. As part of the implementation of the new health care act, the department had to provincialise primary health service. This created insecurity in the LA and the department. It impacted negatively on the research because at the time when the research commenced the Metro health Services comprised of the regional Hospitals in the Metro and all primary health Institutions. A gradual change occurred where these two services were split and the MDHS came into existence. It was difficult to keep up with the changes and to include it in the research. It was thus decided to only include changes that occurred up to June 2005.

## **6.2.2 Transfer Funding Best Practice Model and Formula**

### **6.2.2.1 Model**

In terms of the literature, there is no single model available for the transfer of funds or for PBF. The models indicate that the ideal process involves the following (Hecht, Batson,, and

Brenzel, 2004, Eichler, and Kolehmainen-Aitken,, 2001, Goldfield, Burford, Averill, Boissonnault, Kelly, Kravis and Smithline, 2005):

- An assessment made on the ability of the organisation to be able to perform.
- An agreement is negotiated
- A written SLA
- An M&E system
- Auditing of performance
- A system of rewards and penalties
- Reporting based on information
- Implementation where the service provider bears the risk of implementation

#### 6.2.2.2 Formula



In the calculations that are used, consideration is given to the importance of the area of performance. A weight is given to the area and the performance of the service provider is rated in terms of the how well the targeted performance had been achieved. The service provider is assessed in terms of the target that was achieved and how well the service provider performed above the expected target. The consideration for the transfer is not based on the performance only, but considers the percentage of the target that was reached. Funding is thus linked to the actual performance, the achievement of a target, weighted and rated. An external auditor measures the performance of the service provider. The transfer of the funds is based on the weighted performance in each area of performance.

The tools to manage the process were, however, lacking. The literature on PBF did not provide information on how strategy should be developed; neither does it indicate how

performance should be managed. It was thus necessary to extract the tools to manage strategy and performance from the existing literature on strategy and performance.

- In terms of the literature, an assessment of the ability of the client to perform and the financial viability of the service provider for funding is based on the internal ability of the organisation to manage and the external impact it has on the community it serves. In applying criteria for financing an organisation, one should thus establish the impact that the business will have on the external environment and the internal characteristics of the organisation to deliver the expected service (Berens & Company Investment Bankers, Juneau Economic Development Council, Seedfinancing and World Summit on Sustainable Development)



### **6.2.3 Performance Tools**

Different tools are available to manage and measure performance. Each tool has its own distinctive value that contributes towards performance management and measurement. The tools with the respective benefit are as follows:

- TQM is used to ensure that a quality service is rendered or -product is produced.
- The contractual agreement and the SLA are used to ensure that each party understand the expected performance, the roles- and responsibilities of each party. It also provides the legal framework within which each party operates.
- Benchmarking is used to ensure that targets are set and pitched on an acceptable level for the organisation to achieve.



- The logical framework is used to plan service outcomes, based on the inputs and processes, and to identify the most appropriate place to measure organisational performance.
- The BSC is used to plan and measure strategic outcomes

The factors that influence performance are categorised into performance outcome factors and legal outcome factors. The first is the actual achievement of a target whilst the latter is the actual performance in terms of an agreement. The factors that influence performance can further be considered to be:

- Intrinsic or extrinsic
- Positive or negative
- Subjective or objective
- Relative or absolute.



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The latter two bullets are also considered in the legal environment to establish whether there are grounds for a party not being able to perform. It was not evident from the literature how these tools can be used in an integrated manner. During the investigation performance measurement models developed through different phases. The traditional method and the first generation of BSC's were available at the time of commencement of the research. The second generation of the BSC was released during the investigation and the 3<sup>rd</sup> generation was under discussion.

Instead of focusing too much on restructuring it is indicated that it is best to focus on the outcomes or service that should be rendered rather than to focus too much on service or organisational restructuring. According to Green (1998), constant restructuring affect the organizational outcomes or performance management negatively.

It is also indicated that performance management is managed appropriately by the department that should render the service and not by the finance and treasury section. Treasury and Finance should play a supportive role rather than leading the service outcomes.

#### **6.2.4 Strategic Tools**

##### **6.2.4.1 Defined process**

Koontz and Weihrich (1988) indicated that the process of analysing an organisation to develop its strategy is not just an internal process, but also an external process that involves certain stages. Thompson and Strickland (1996) purports that to manage strategy the organisation should follow specific principles and that it is a task oriented process, which involves five tasks. Whether it is a process in stages, tasks that should be completed or whether specific principles applies, there is a defined process according to these writers which involve identification of the organisational profile, setting targets, identifying measures to measure whether the targets had been met, implementation of the strategy, monitoring and evaluation of the strategy and a re-evaluation process to realign the strategy on the basis of the available information.

##### **6.2.4.2 Decision based on alternatives and criteria.**

According to Stoner and Freeman (1989), a change in strategy is needed when the designed strategy fail to achieve the desired result it was designed to achieve. The decision to make a strategy should be made between different alternatives. To decide on a strategy the organisation should base the decision on the outcomes the organisation wish to achieve

within the available opportunities, but at the same time it should be evaluated against available information on the consistency with organisational policies, consonance of the organisational resources, feasibility that it will be achieved with the available resources and that the organisation has a good prospect of achieving the desired advantage. (Rumelt, 1980)

#### **6.2.4.3 Synergy or Alignment in a Diverse Environment**

The development of a strategy to gain advantage should be developed in keeping with the organisational design. It should consider corporate, business, functional and operational direction. The corporate part of the business will set the trend for the other sections of the organisation and the plan will be narrowed down as it devolves down to the operational level. It will narrow down because it becomes more specific within a business, functional or operational unit. For each unit to achieve a desired strategy the organisation should create synergy among related businesses and transform it into a competitive advantage. In a diverse environment, energies amongst the different business units should be aligned to achieve the desired strategic benefit or advantage.

#### **6.2.4.4 WHO**

The literature supports an approach where all role players form part of the development and implementation of the organisational strategy. The WHO, that is the global player in health matters, supports an encompassing, inclusive process. This process dictates that all role players are consulted on the organisational strategy and indicate how they will assist in implementation and resource sharing. The approach of the WHO, in designing strategy, is also indicative of differentiating between service and allocation of resources. The WHO

indicates clearly that if we want to eradicate poverty, more funding should be directed to health. The differentiation is in the decision to use more funding in health to eradicate poverty. The focus is thus more on creating health benefits for poverty eradication, rather than social upliftment or education.

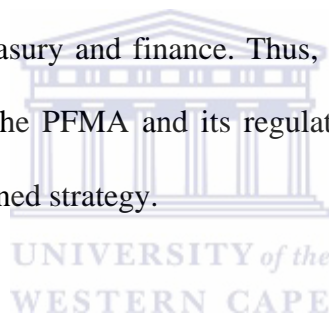
#### **6.2.4.5 Public Sector Strategy**

According to Green (1998), organisational strategy in the Public sector should be directed towards service efficiency and the outcome that the organisation wishes to achieve rather than the monetary gain it could procure out of service delivery. He indicated further that restructuring should be kept to the minimum as this energy could be used to achieve the organisational goals and to achieve service excellence. His contention on owning the strategy is that the government department responsible for the service should be responsible for design, implementation, monitoring, and evaluation of the strategy. The department should find support from the finance and treasury sections rather than that the latter two departments dictate the direction of the department. Public departments should thus be focused on designing their own strategy rather than to allow another department to do it and to focus on service excellence rather than to keep on restructuring.

The concerns that were identified by Green (1998), in the civil service, are measurements, performance indicators, audits and reviews, "... Clearly defined objectives, targets, goals, plans and standards of achievement ..." and information.

#### **6.2.4.6 SA Context**

Here in South Africa, there are two acts and regulations that dictate how strategy should be developed and implemented. Both dictate how transfer funding should be addressed in conjunction with the DORA and Provincial policies. The two policies are seemingly in conflict with each other, as it is not indicated which one carries more preference than the other does when there is a dispute. Green (1998) who indicated that during his research it was found that treasury and finance drive innovation and change, in the countries where his research was done, spells out this possible conflict between the PSA/PSR and PFMA. It makes sense that because of the cost-based approach by organisations, preference will be given to the PFMA. Green's (1998) perspective is that departments should drive their own strategy and be supported by treasury and finance. Thus, preference should be given to the PSA/PSR and be supported by the PFMA and its regulations. The PFMA is developed to manage finances within the designed strategy.

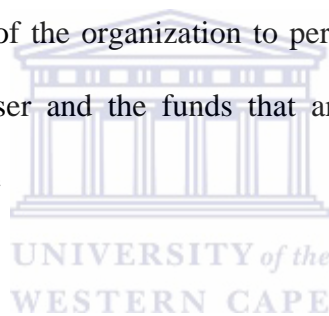


#### **6.2.5 Links**

According to Rockart (1979) CSF is the precursor to KPA's. The strategy will be designed after which CSF will be developed to guide what KPa's should be designed. The CSF is thus a link between the strategy and performance management.

Rumelt indicated that an organization should establish whether it is feasible for it to achieve its strategy with the available resources. The best strategy can thus be designed, but if the resources or funding is not available it will have little chance of success. Feasibility can thus be regarded as the link between strategy and finance.

In the models, as discussed in the best practice models, different methods are used to calculate how much a service provider should be provided for a service. The service user or funder has to establish whether a specific target had been reached. Funding is made available in terms of the performance of the service provider. A weighting and rating process is used to come to the final decision on the funds that should be transferred. It also considers over achievement of the target and provides a certain percentage of either the agreed funding or an extra percentage of the agreed funding for an agreed target. Funding could be in terms of finance or consumables (Hecht, R, Batson, A, and Brenzel, L 2004, Eichler, R and Kolehmainen-Aitken, R, 2001, Goldfield, Burford, Averill, Boissonnault, Kelly, Kravis and Smithline, 2005). The funding model, however only considers the actual performance of the organization and not the ability of the organization to perform and the risk that the service provider pose for the service user and the funds that are provided. There is thus a gap between performance and finance



### **6.3 FINDINGS AND INTERPRETATION OF THE INTERVIEWS**

The hermeneutical approach is a method through which the parts are compared with the whole and the whole with the part. The words and lines of the transcribed material were scrutinised and coded into conceptual themes so as to extend the original three concepts of finance, performance and strategy. After analysis of the material and reviewing it with the literature, two new areas evolved that will be addressed later.

The service of a transcriber was used to transcribe the recorded material into an Ms-Word format. Some sections of the tape proved indistinct and not all the recordings could be properly transcribed. The notes were used to fill in the gaps. The material was analysed after

each interview for thematic changes. The last interview prompted the inclusion of one theme. In revisiting the literature this theme became evident. It was not that evident during the literature review. The gap analysis also revealed the inclusion of a second area that should be included in the framework, to complete the framework.

The presentation is structured in six parts namely: unstructured interview, semi-structured interview, and a statistical table of answers on the unstructured and semi-structured interview, the review of the framework, triangulation (the 2<sup>nd</sup> review of the literature) and participatory action research. Although a major part of the study did not lend itself to graphical display, graphics were used in the areas where it could be done. Data were analysed by using Ms-Word and Ms-Excel to tabulate the areas of investigation and to tabulate the number of “yes” and “no” answers to each area. Qualitative data were analysed in MS-Word by colour coding applicable areas in different colours. The first process was to highlight areas that are applicable and then to colour code it according to the areas in the framework. Similar views were grouped together and areas highlighted in text, in Ms-Word. The data was analysed and the areas that the managers deemed important were revealed. The areas that were revealed were, finance, performance and strategy. This chapter therefore presents the findings and analysis of the data that was collected in Chapters two to five.

### **6.3.1 Unstructured interview**

The unstructured interview was used because it allowed the respondents to set the boundaries for their responses. Only one open-ended question was asked to the respondents. During the unstructured interview, the respondents were asked to explain the process that was followed to manage the transfer of funding. The expectation was that the respondents would address the transfer of the funds and the planning process that leads up to the decision in transferring

the funds. The respondents, however, only explained how the money is made available and not full process of managing the transfer process.

In terms of the hermeneutical process, data is interpreted and compared with the whole and the parts to see if the parts or the whole was addressed. During the interview, the respondents focused mainly on the actual transfer of the funds and how the funds are transferred. There was agreement amongst all that the LA transfers the funds based on a statement of expense. What materialised from the first respondent was that a decision is made about transfer of the funds, but there is insufficient information to make an informed decision. The respondent contended that the access to the information is lacking. The person who has to make the decision does not have ownership of the information. The service provider owns the information, but the service user has to make the decision based on a statement of expense. This statement of expense was regarded as "...a shopping list ...". Respondent Three explained what the process should be and did not respond on what is actually happening. After he explained what the process that should be, he was asked to explain the existing practice.

*"...We discussed how you perceive the process should be in terms of the PFMA, DORA and the regulations." "...but now I would like to establish what the current practice is, that is, what is the current practice when funds are transferred to LA. How do people handle it at the moment?"*

Respondent Three indicated that the process was not followed according to the prescripts in some cases. Respondent Three regarded the process at the MDHS as one of such cases. The respondent went further and indicated that PGWC should discuss the process with LA, which they do. Money can only be transferred if it is available. LA on the other hand spent the money even if it is not available and applies political pressure to transfer the money, even if it is outside the agreed amount that is available.



*“So hulle “worry” nie eintlik oor die begroting van die Departement van Gesondheid nie. Wat nou gebeur is; aan die einde van die finansiële jaar bou daar ... te kort op, want hulle spandeer meer as wat die begroting toelaat”.*

*“...So they don’t worry about what the budget of the department of health is. What is happening is that at the end of the year shortages build up, because they spent more than what is allowed in terms of the budget”*

The respondent continued and indicated that the shortcoming in the system is that a written service level agreement is not in place with the LA.

*“Die leemte in die stelsel is dat daar word nie op ‘n jaarlikse basis met elke plaaslike owerheid ‘n kontrak onderteken nie. Daardie kontrak moet sê, dit is wat ek van jou verwag, dit is die hoeveelheid geld wat ek vir jou kan gee, hier is die gevalle die volgende goed moet afgeskaal word om binne daardie begroting te kom, daardie kontrakte is nie in plek nie en dit is die groot leemtes op hierdie stadium”. “The flaw in the system is that a contractual agreement is not concluded with every local authority on a yearly basis. The contract should indicate what is expected (of the service provider), the amount of money which should be transferred and the areas that should be decreased to come within the budget. These contracts are not in place and it is one of the current flaws”*

Respondent Four stated,

*“...we still don’t have a signed service level agreement...” and “...because of this kind of cost Province (PGWC) has not kept up with what the real cost are.” “The difficulty is maybe that from Province’s side there is a bottom line, you know they got a total amount that they are going to give us regardless of really what we actually spent on them. ... So if I say ... the medicine has gone up 10% that’s why I need ... 18 million rand. It’s not like they going to add in extra money to this subsidy at this moment, but then they going to say OK, if you want to put 18 million of your subsidies towards medicine, our contributions to the rest of your service, drops down because the bottom line stays the same ...”.*

It is evident from this data that there is agreement between PGWC and LA that the budget is limited and that an organisation should not overspend. What is not clear in the process is

what happens when the cost of the items increase and it was not included in the original budget. Clear indications should be given that the bottom line stays the same and adjustments has to be made when the cost of the service escalates. Currently this seems not to be happening. What is clear is that both PGWC and LA is of the impression that a written service level agreement should be in place. What was also revealed were the issues surrounding the Provincialisation process that was started by PGWC and issues pertaining to the services that were provided by the LA. It was clear that the Provincialisation process brought uncertainty in terms of the service that was provided by LA. When the service is provincialised, the health service that was provided by LA should be rendered by PGWC.

The respondents stated the process in terms of the use of information, ownership of the information, costing of the service, the flaws in the system, written contractual agreements, clear communication of budget constraints and limitations, bringing the budget in line with real cost, risk management and the Provincialisation of the health service rather than in terms of strategy, performance and financing. Because the areas in the framework were not addressed the researcher proceeded to the semi-structured interview, to establish if the areas exist and what role it played in the transfer process.

### **6.3.2 Semi-structured interview**

During the semi-structured interview open-ended and close-ended questions were used. Closed ended questions were used to establish the existence of an area. Open-ended questions were used to further prompt the answers to the close-ended question.

The researcher indicated to Respondent Two that the study is

*“...specifically looking at the whole process on how one decides on how much money should be transferred.”*

The response from the respondent was that

*“The City of Cape Town has to give us a business plan. Unfortunately we do know that the financial years vary, because their financial (year) is from June to July and ours of course is from March to April. Basically what happens, although we work three years in advance in terms of how things are projected in terms of the MTEF (Medium term expenditure framework), annually they give us a business plan and from that business plan they...provide the actual expenditure or what they feel should be an input from the transfer payment perspective, then that is negotiated with an understanding that there is a benchmark (the respondent use this to mean an indicator).” “...but how that payment is made, because of the monitoring and evaluation of those payments, it is done...in terms of the PFMA.”*

The researcher asked to Respondent Three; “Can you just explain again, you said benchmark for the City of Cape Town in terms of the PFMA” the answer that followed was that

*“Yes, look if I say benchmarks in terms of the PFMA, I’m saying there are clear aspects that needs to be devolved with in terms of monitoring and evaluation of the payments...” “...we still don’t have a service agreement signed...”, but in the absence of such an agreement “...finance instruction G48 of 2001...”*

is used. According to Respondent 2 payments were changed from a quarterly basis to a monthly basis. No real reasons accept that the respondent implemented it were given. The researcher did not pursue it either.

Question from the researcher

*“So, what I have to understand is that you got a strategic plan and you now develop a joint strategic plan with the City of Cape Town, but previously there was a separate plan.”*

Respondent Three

*“There always will be (separate plans), because we not one authority yet, but for the 1st time there has been a joint plan develop.”*

#### Researcher

*“Is there a process that you follow to establish whether the City of Cape Town actually manage to achieve the indicators or have you not gone through that yet”*

#### Respondent Two

*“No, that is the process that we have to actually develop now. The indicators had been decided on but the process of monitoring and evaluation still need to be agreed on.”*

The researcher asked Respondent Two whether PGWC “...have a particular strategic plan...”

for managing transfer funding. The response was that

*“ The city has their own strategic plan, because they base it on their IDP (Integrated Development Plan), so they have their own strategic objective. We know that currently because it is two different authorities. The Provincial Department’s (PGWC Strategy) based on the national. but the Province has 14 strategic objectives, so there are similarities and those similarities we kind of incorporated in the district health plan for the metro and that district health plan has now been in its final draft as of the 7th of April (2004) and that is a different plan, because that is a joint district health plan based on targets that can be looked at in perspective from either and that will be a joint aspect” “...that will be monitored.”*

A joint plan was drafted between PGWC and LA.

*“So the joint plans are not...of the transfer payments only, because it was an aspect that was looked at and it was a frame work from the National Department of Health. So that frame-work speaks a lot to our strategic documents and we have now incorporated indicators that we jointly agreed on”*

The PGWC on MDHS level and LA aligned its own plans with that of the National Department of Health, but failed to address the plan in terms of the Provincial framework.

The plans of PGWC and LA are developed in conjunction with each other "... because you still have your separate plans and then you got the joint plans." (Respondent Two) The final draft or copy as you will see is dated on the 7<sup>th</sup> April 2004. According to Respondent Two

*"The joint plan is aligned to the plans of the National Department of health" and "a lot of that links to the strategic document of National"*

The latter refers to the National Health Plan of the Department of Health of South Africa of 1999 to 2004. Efforts were made to align the plan of PGWC and LA with the National Plan, but there is little indication of alignment with the Provincial plan

According to Respondent Three the process should be driven by information and decisions should be based on information.

*"Die... beampte moet verseker dat hy die inligting kan kry wat hy moet kry. Deur eintlik vir hom te kan sê dat sy geld reg gespandeer word anders doen hy nie sy werk nie." The officer should ensure that the needed information is received. The information should indicate whether the money is spent appropriately, otherwise the person is not doing his work.*

Risk had been identified as an area that should be addressed and included in the framework. Respondent Four highlighted risk acceptability as an issue that should be addressed and should be borne by the service provider. This prompted the inclusion of another area and theme; namely risk.

*"So in a sense you move all management responsibility ... and you actually shift the risk because you know you could build in the quality targets you want..." and "...the outcomes you want."*

Respondent Four highlighted the link between information use and financing and also developing an information system that reflects the reality of what is being done with the money and not just the clinical impact.

*“There should be links between information and finance so that you really want a management information system rather than just a kind of service information system. It is not just about what you do, it is just a link what you do to your money.”*

Respondent Three on the performance agreement and funding indicated that

*“Die groot ding daar is, is die ooreenkoms wat ek van praat en die konsensie oor die ooreenkoms, want as jy konsensie het oor die ooreenkoms dan weet jy hoe om die dienste te befonds” (The big thing there is the agreement that I refer to and the consensus about the agreement, because if you have consensus on the agreement then one would know how the services should be funded.)*

The respondent indicated further that

*“Die besluitnemende beampte moet verseker dat hy die inligting kan kry wat hy moet kry. Deur eintlik vir hom te kan sê dat sy geld reg gespandeer word anders doen hy nie sy werk nie.” (The deciding official should ensure that he receives information. This should indicate whether the finances are properly appropriated, otherwise he is not doing his work.)*

Respondent Three agrees that programme managers, information managers and finance managers should work together to ascertain how much the transfer payout should be.

In summary there is agreement that a strategy should be in place. Initially this was not in place, but the PGWC and the LA did not only develop their plans but created a joint plan. The expectation was to align the plans. They in fact went further and developed their own plans and a joint plan that, jointly, address the service issues. There was also agreement that measures should be in place, that LA should be monitored and that finances should be accorded on the basis of the performance of LA. Other areas that were highlighted were information and an information system to support performance measures and decision

making, a written service level agreement, eradication of financial and monitoring systems that work separately and that the risk should be carried by the service provider. The tables will indicate areas of concurrence between the respondents.



### 6.3.3 Table of Interview Findings

The tables and the graph represent the outcome of the qualitative data. There are diverse perceptions on some of the areas, which are mainly due to developments in the health environment. There is, however agreement in the majority of areas. The first table is a response on all the areas by the respondents. The second table is a depiction of the responses in Table 4: Finding of investigation (Source: Author). The graph is a graphical display of Table 4: Finding of investigation (Source: Author).

Table 4: Finding of investigation (Source: Author)

Area of investigation	Resp. 1	Resp. 2	Resp. 3	Resp.4
Whether strategic plans are developed for the business and what process is followed?	No	Yes	Yes	Yes
Whether performance indicators were identified, was it in line with the strategic plans and was it pitched on an output level?	No	Yes	Yes	Yes
Whether the organisation that should receive funding was subjected to performance appraisal, before funds are transferred?	No	Yes	Yes	Yes
Does the evaluator know whether an efficient, effective and transparent finance system (as per PFMA) is in place, at the receiver of the funds?	No	No	No	Yes



Area of investigation	Resp. 1	Resp. 2	Resp. 3	Resp.4
Who made the decision for transfer of funds?	Director MDHS	Director MDHS	Director MDHS	Director MDHS
What was the basis for the decision to transfer funds?	Statement of expenses	Statement of expenses	Statement of expenses	Statement of expenses
Whether the performance indicator is reformulated to indicate the level of finance and how it is done?	No	No	No	No

At the start of the interviews a strategic plan was not in place. As the research proceeded, the department develop a strategic plan. This plan was a joint plan, instead of an aligned plan. The strategic plan was in place. There is disagreement on whether the LA is subjected to performance appraisal before funds are transferred. This disagreement could be based on the interpretation of when it is happening. Performance measures are in place and it is done, but the financing is not based on the performance of the organisation. The organisational performance is looked at as to establish whether there was performance, but not whether it is such that it warrants the amount that is transferred.

The majority of the respondents were not informed whether the financial information system at LA is aligned to the prescripts of the PFMA. It was thus difficult to track whether funds had been spent for its intended purpose. The one person that said yes had more inside knowledge of the system that existed at the LA. There was agreement amongst all that the respondents that the director of the MDHS takes responsibility and makes the final decision on the transfer of the funds. The respondents also agreed that a statement of expense is used

to transfer the funds. The formula that is used is a statement of expense. It is however questionable whether a statement of expense is the most appropriate manner to calculate the amount that should be transferred to LA.

Only the areas that lend themselves to calculation were tabulated and displayed in graphical format.

Table 5: Table on responses to areas of investigation (Source: Author)

Area of investigation	Yes	No
Whether strategic plans are developed for the business and what process is followed? (Strategy)	3	1
Whether performance indicators were identified, was it in line with the strategic plans and was it pitched on an output level? (Performance indicators)	3	1
Whether the organisation that should receive funding was subjected to performance appraisal, before funds are transferred? (Performance Appraisal)	3	1
Does the evaluator know whether an efficient, effective and transparent finance system (as per PFMA) is in place, at the receiver of the funds? (Transparent Finance System)	1	3
Whether the performance indicator is reformulated to indicate the level of finance and how it is done? (Formula Exist)	0	4

Comment on the table above will be combined with the discussion on the graph.

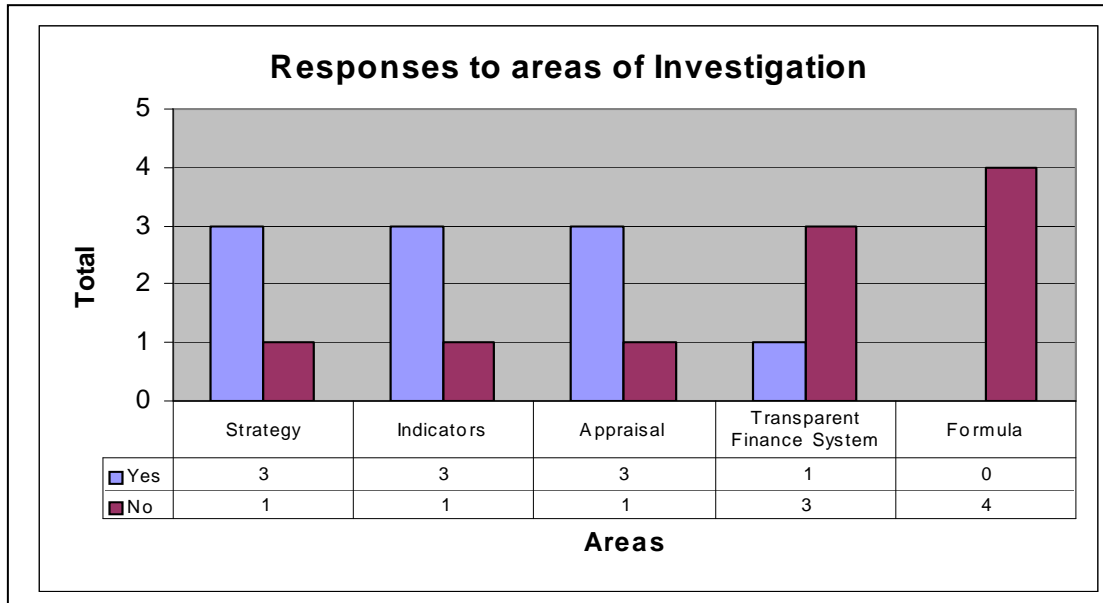


Figure 19: Graph on Responses to areas of investigation (Source: Author)

In terms Table 5 and Figure 19 only Respondent One answered “No” to the first three areas. The inference can be made that one person is not agreeing with the others. The data in fact skews the picture as it developed. The three that answered “Yes” were interviewed after PGWC and CoCT developed a new strategic plan. At the time when Respondent One was interviewed there was no strategic plan in place. Information was extracted from the interviews through a process of reduction and aligned with the themes under investigation. Information that indicates extra themes was separated from the initial themes. There was agreement that performance indicators did exist. The one respondent that indicated that it does not exist, was interviewed before the joint plan was developed between DoH: PGWC and LA. Not all the plans were, however, developed to establish the outcomes of LA separately, as indicated in terms of the PFMA. Thus, although it is indicated that LA is subjected to performance appraisal before the funds are transferred, the performance appraisal is not used to find concurrence between the performance and the money that is transferred. It is aimed at knowing whether there was in fact some form of performance. It was said by Respondent Two that indicators to align the performance with the finances must

still be developed. As can be noted the majority indicated that a transparent information system does not exist within LA. This was stated because it was not possible to establish whether the funds that were transferred were used for the agreed outcomes. All the respondents agreed that they do not use a formula to reformulate the performance to indicate how much funds should be transferred. There is agreement that a model, an information system and a formula will assist with the process and improve how the funds are managed.

#### **6.3.4 Review of the Informal Framework**

All the respondents indicated that the framework that was used in this research is how transfer funding should be done. The opinion was that the framework presented is much clearer about the process that should be followed, but the framework was seen to be somewhat complicated. Respondent Four indicated that model is too complicated and need some refinement, so that it can be easily understood. “I would suggest that you make this drawing simple. Your drawing is too complicated. You need to try and work out a way that layers it into a thing. .... When you get this kind of thing (*framework*) ... I mean most people can’t follow this ... when they get ... feedback. If you want to try and simplify your drawing start with this (*referring to the regulation and the legislation*) at the top and try and get it to work down so it can be easier to read ... that is not easy, but ... at the moment it is too complex. Most people just lose it, they lose the plot”. “To build your formula that you talking about, the block in the middle there, your formula has to be based on cost so that you got to know what it cost to treat a patient, because how can you build up a financial formula if you don’t know what the cost is and that is the biggest problem in most of the things and it varies a lot”.

Respondent Three indicated that *“Jou beplanning hier is net baie meer duidelik uitgesit.”* *Your planning is set out much clearer.* With reference to the document that was compiled by the department of finance of the WCPG Respondent Three commented as follows: *“Ons is baie op dieseflde golflengte soos ek sê jou detail is net baie meer as die ding van my”.* *We are on the same level, as I indicated, your detail is just much more than what I have”.*

Respondent One said that he liked the “project” (*research*). He further indicated that the framework hit the nail on the head. The idea is to come up with a solution. The model should indicate that there is a gap, but the solution should show how it should be done in easily identifiable steps.

## **6.4 SUMMARY OF INTERVIEW DATA**

### **6.4.1 Finding Aim 2**

- The process that is followed by the MDHS is that
  - Agreement is reached between LA and MDHS on the funding that is available to fund the service. It is however not clear what will happen if service cost escalates.
  - Statement of expense submitted
  - Finance pay out as on statement of expense after an assessment is made whether the final amount is correctly calculated.
  - Initially MDHS did not have plans in place but separate and joint plans were released since 7Apr 2004
  - The Performance Management system was not evident at the time of the interviews
  - Indicators not used for establishing performance in LA

- Calculation
  - Statement of expenses
- Links
  - Not evident

#### 6.4.2 **Finding Aim 3**

- Process
  - Both MDHS and LA expressed unhappiness about:
    - The budget. There is a perception from PGWC that LA is overspending and is not considering the budget of PGWC. LA in fact is aware of the budget, but what is not clear is who should usurp the escalation of cost after agreement is reached on the funding. There is also not an indication from PGWC to LA when to scale down cost or do some service adjustments if the budget is projected to be overspent. Communication between the two parties on the budget is thus not optimized.
    - Information access, -ownership, -system and the use of information and decision support systems is a concern both in the PGWC and the LA.
    - The actual cost of rendering the service by either PGWC and LA is not clear.
    - Risk management systems are not evident.
    - Implementation plans are also not apparent.

- The impression from PGWC is that LA spent money and use Political muscle to pressure PGWC to pay over expenses by LA. This cause PGWC to overspend the available budget.
  - The Provincialisation process is causing insecurity from either party as who will ultimately take final responsibility for the provision of the primary health care services.
  - A proper, written contractual agreement and SLA is not in place to regulate performance, roles and responsibilities.
  - A Performance Management System for monitoring and evaluation the performance of LA was lacking. This includes the lack of information on the financial systems of LA
  - Communication and Cooperation between Finance, Information management and program manager is lacking.
- Calculation
- A Statement of expense of expense is used to calculate the funds that should be transferred.
- Links
    - The links between strategy, performance and funding are not clear. The strategy was released during the research and the performance management system was also lacking at the time when the research was done.
  - The comment on informal framework indicates that it is correct but too complicated. A less complicated framework should thus be designed. The framework was further refined and developed to focus on the areas as investigated in the thesis namely, finance, performance, strategy, risk, implementation and the processes that should be

followed to give reasonable effect to each area. This is evident in the framework and the processes in Figure 21, Figure 22, Figure 23 and Figure 24, below.

## **6.5 SECOND REVIEW OF THE LITERATURE (TRIANGULATION)**

On completion of the three stage interviews, the previously identified themes of finance, strategy and performance were extended, by what was said by the respondents. Risk featured heavily in the conversations and needed to be incorporated in the emerging framework. This justified a second review of the literature in order to elicit an understanding of existing work on literature. The review elicited two prominent themes that were not immediately evident from the literature. On further review of the literature on risk it also became evident that implementation is a vital part of the framework. Due to the expansiveness of the research, the researcher decided not to continue an investigation into the details of implementation, but to defer that investigation to future research. The next section will briefly address the area of risk.

### **6.5.1 Risk**

What was mentioned, either directly or indirectly during the interviews was the area of risk. There are sufficient prompts to indicate that the service provider should be subjected to a risk assessment or suffer the risk of failure. Attention will be accorded to risk to establish a definition and indicate what criteria should be used to assess risk and what implications it has for the transfer process. Chicken (1996) adopted a broad perspective of risk and defined it as the "... measure of uncertainty about the frequency and consequences of an unacceptable event." An example of this could be the possibility of a service provider achieving the



expected results for the service that is provided, in line with financier’s strategies. Valsamakis, Vivian and du Toit (2000) defines risk as an extent to which the actual outcome deviates from the expected outcome. In the definitions of Chicken (1996) and Valsamakis (2000) they considered that the outcome of risk is not always predictable (expected outcome) (Chicken, 1996).

In this study, risk is considered as the measure of uncertainty about the consequence and the frequency and extent of that consequence in relation to the input and activities of a planned- or unplanned exercise, project or programme to be implemented or that had been implemented. It is recognised that one needs to identify the risk before an assessment is made of the risk, as Valsamakis et al (2000) indicate. It is recognised that in transferring funds from DoH: PGWC to LA, there are risks involved in programme implementation. According to Valsamakis et al (2000), risk management is not a “... single event.” but is regarded as an “... ongoing process...”

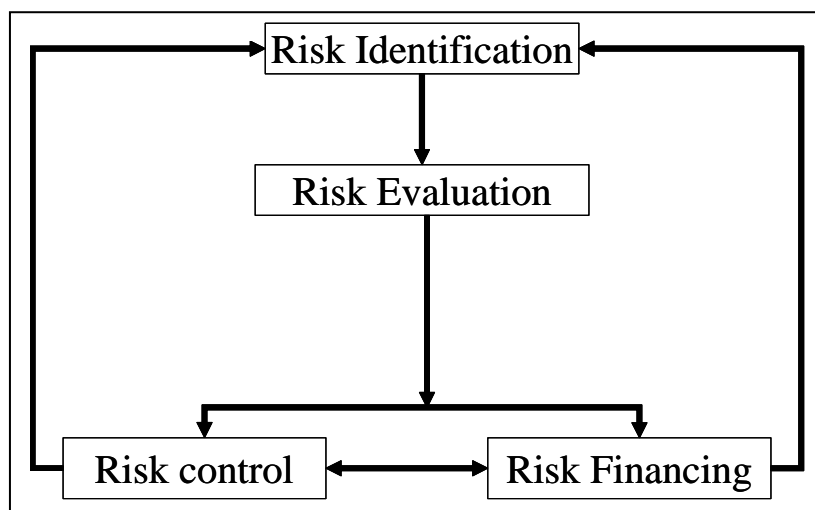
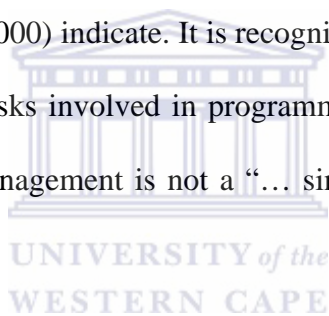


Figure 20: The Risk Management Process (Source: Valsamakis et al, 2000)

Figure 20 illustrates the risk management process. It illustrates that before one can control or finance risk one has to identify it and do an evaluation of the identified risk. Based on the

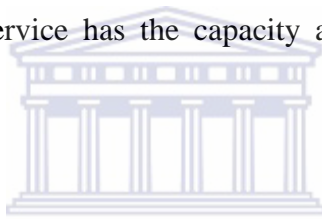
evaluation of the risk the risk will be controlled and financed. There is a link between the financing and the control, as one can manage risk that had been financed and one also doesn't finance risk that cannot be controlled or managed. Risk control is aimed at loss prevention, loss minimisation and risk intervention as and when it occurs. Risk financing is aimed at financing possible future risk through own funds or funding by a third party. This would normally be through insurance, state funds or any other party that transfer funds for a service. (Valsamakis et al, 2000), Risk control is an intervention method to, eliminate or reduce risk that has the possibility of causing organisational or personal loss and minimise the actual loss when prevention methods proved not to be fully effective. (Valsamakis et al, 2000)

Risk was identified in the literature of strategy, performance and finance. In terms of the strategic process (See section 4.4 under "Strategy"), the service user should identify the organisational profile, audit the external and internal environment of the service provider, develop alternatives based on the audit and evaluate strategies based on the risks involved. If an external service provider is used, the external service provider now forms part of the organisational profile of the service user. The external organisation now becomes part of the inner circle that provides a service. This organisation should thus be part of the internal and external audit of the organisation. Based on the risk that the service provider poses, the service user should re-strategise the management of its own risks and that of the service provider.

In terms of strategy development there should be alignment between corporate- and business strategies see section 4.7. An external service provider in effect becomes a tool of the service user and the service provider should align its strategies to that of the service user, so that the targets of the service user can be met. The WHO indicates that an organisation should

consider the internal and external forces and risk to the organisation. In terms of the PBF literature the financial risk for providing quality care should be borne by the service provider, but a single score should be set for cost and quality. In understanding the BSC one needs to consider the causal link between activities, cost and activities and cost. There is thus a constant evaluation of the effect that an activity or a section has on the bigger picture in the system. This prompts for an evaluation of the service provider, whether it provides an opportunity or poses a risk for the outsourcing organisation.

In Table 2, reference is made to factors that could influence performance and noted management style as one of the factors. It thus needs to be established whether the organisation that provides the service has the capacity and skills to perform the specific outcomes.



According to Eichler and Kolehmainen-Aitken (2001) the concept of performance based financing is new in many countries and no single model exists for performance-based payments. Their contention is that the system should be designed to consider the organisational goals, capacity and constraints. An external organisation that provides a service may contribute to the capacity or the constraints of the service user and its strategy. It thus becomes necessary to evaluate the external organisation, to assess whether it contributes to the capacity or constraints and how one should adapt ones strategy to this.

According to Goldfield et al (2005) “the key attributes of a successful pay-for-performance system” is that providers should run financial risk for quality care. In an effort to establish the impact of the financial risk that the organisation is able to carry, one need an assessment of the organisation and whether it is able to carry the financial risk. If it has difficulty to carry

the financial risk, it will also pose a financial risk to the service user. The Auditors report, on page 90, refers to a risk analysis that should be done of the service provider. The need to investigate, assess and manage risk becomes a necessary element for completion of the framework. Risk could have an impact on the transfer of funds and it is necessary for a funder to assess the risk that a service provider pose and how the risk will be managed, controlled and financed. There are thus sufficient prompts that indicate that the risk that the funder is faced with internally should be balanced with the risk that the service provider poses externally. This assessment should be considered in the light of what the funder wish to achieve for its own organisation and what it expects of the service provider. In short, a risk profile should be developed of the service provider.

### **6.5.2 Implementation**

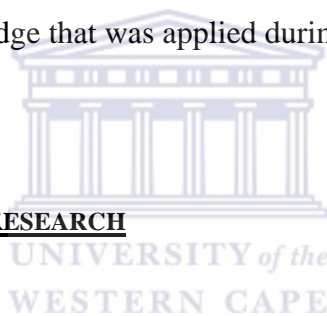


During the review of the literature on risk, what also materialised was that implementation (of service delivery) should happen after the design of the strategy and before the performance is measured. Implementation was identified in the text of the finance literature as effective and efficient implementation and execution of the chosen strategy, as contemplated under 4.3, to consider medium- and short-term planning as well as the implementation process (see under 4.4), control mechanisms and the feedback process/flow, implement best practices (see under 4.3) and programmes to ensure improvement and in III C of the PSR a service delivery improvement plan is mentioned (see under 4.8.3.1)

In terms of the finance literature the text that indicates that implementation is a necessary element was identified as transfers occur when the cost for *service provision* is borne by a

different entity than the entity that provides the service, there is however a serious flaw in *implementation* of this control mechanism (see under 2.3.4), the quality score is “... a measure of the structure, process and outcomes of *treatment delivered*...” This is measured against the specified case mix, the project was planned and negotiated with the NGO’s and then *implemented*, the new model inspired the NGO’s to “... examine their models of *service delivery*...” (see under 2.3.4.3.1) and the generic content of the PFMA indicate that the strategic plan should include detail of the service delivery programme (see under 2.3.5.1).

Implementation and risk are thus regarded as important areas that should be considered for further investigation in the framework. This leads the report to the involvement of a role player that influenced the knowledge that was applied during the research.



## **6.6 PARTICIPATORY ACTION RESEARCH**

In a participatory action research (PAR) process the participants of the research jointly influence the knowledge of participants with the researcher through a process of self reflection. The researcher identifies and illustrates concerns, beliefs and values in conjunction with participants. Theory and concepts are developed as the research progresses and participants are interviewed (Terre Blanche and Durheim, 1999). The PAR was conducted to clarify concepts, processes and information and the availability of information. It was also the point of departure to understand what transfer funding was all about. The researcher discussed the research with one of the managers at the Metro Regional level, who was involved in the transfer of the funds. The role player was used to reaffirm ideas and to develop the framework for the interviews. He was, however, not interviewed. The

discussions, with the role player, were not recorded either. The role player contributed knowledge about the transfer process concerning the statement of expenses that was used to transfer funds, rather than that the transfer of funds are based on the actual performance of the LA. His contention was that the Director is not actually involved in the decision on the transfer of the funds as it is done by the finance section, under the supervision of the role player. His contention was also that the PGWC do not do an assessment to see if the expected performance had been met, but transfer funds based on a statement of expense. He furthermore stated that a formula was not used to establish how much funds should be transferred, except to calculate if the statement of expense is correct. The role player also referred the researcher to the auditor's report, which was discussed under financing.

The role player thus played a substantive role in directing the researcher to the appropriate material that impacted on the research. This leads the discussion into the summary of the findings.



## CHAPTER 7

### 7. CONCLUSION AND RECOMMENDATIONS

#### 7.1 INTRODUCTION

The study embarked on an extensive investigation into the literature based on the initial two “areas” depicted in Figure 4: . This led to further extensive investigation in a third area, Strategy, that is regarded as the foundation for the framework. The new “three-area” framework evolved as depicted in Figure 5: .

The extensive investigation of the literature is justified in view of the extent of the topic at hand. Insufficient justification would have been accorded to the topic and the objectives of the work if the areas in the literature were not address appropriately and proportionately to the importance in the process. However, any research can become a never-ending search for answers if there is a continuous willingness to answer questions as they arise. A study, however, needs to find a conclusion at some stage. What is of importance, at the end of the process, is that the aims of the study should have been addressed. This study identified areas where further research is needed. These areas will bring substantive support not only in the area of transfer funding, but also to strategy design, service costing, performance management, strategy implementation, risk management and financing of a service.

From the empirical research and the literature review it is evident that information drives the process of designing a strategy, establishing what the critical success factors are, developing the key performance indicators and how much money should be transferred. It is also evident that the decision that is made by the Director should be based on information about the performance of the service provider. It was indicated by the Director of MDHS that he do not

have access to the information, so that he can make an informed decision. The literature (Eichler and Kolehmainen-Aitken, 2001) and the empirical research (voiced by the respondents) indicate that information is vital to ensure that an informed, appropriate and risk oriented decision is made with regard to the transfer of funds. According to the one of the respondents the information is vital to ensure that the departmental targets are met and appropriate management decisions are made. In order for the Director to make an informed decision, he needs to be informed about the amount of money that should be transferred. This can be established by using normal mathematical or accounting processes that are based on previous expenses, but it does not indicate whether the money had been spent in an efficient and effective manner and whether the agreed upon service had in fact been supplied. This chapter will indicate whether the research problem is addressed through the empirical study and the review of the literature.



## **7.2 RESEARCH PROBLEM AND AIMS**

The study was initiated from a real world issue, based on evidence that funds were not being transferred on the basis of actual performance of the LA. The problem that was identified was that DoH: PGWC could not identify whether LA performed on the expected level with the money that was transferred. DoH: PGWC also did not utilise performance measures to establish the level of financing or fund transfer.

The broad aims of the study therefore were to:



- Broad Aim 1: The aim of the research was to investigate the existence of a process and a formula or calculation that would indicate how much a service provider should be financed for a service, based on its performance
- Broad Aim 2: Because the study was an exploratory and explanatory study, it aimed to gain new insight into the central concepts and constructs of a transfer model.

### **7.3 BROAD AIM 1**

The more detailed aims that resort under broad aim No 1 were:

- Detailed Aim 1: Explore the existence of a best practice model on a process that is followed when a service user transfers funds to a service provider and the existence of a formula when funds are transferred.
- Detailed Aim 2: Establish what the process is that is followed by PGWC: Department of Health when funds are transferred to L.A. and whether a formula is used to calculate how much money should be transferred and
- Detailed Aim 3: Explore the perception of managers in the PGWC: Department of Health about the management of the transfer process and the existence of a formula when funds are transferred to Local Authority.

In the conclusion attention will be given to bringing the literature review, the empirical research and the second review of the literature together. Each aim will be addressed separately with supporting evidence from each of the investigations.

The first broad aim of the research was to investigate the existence of a process and a formula or calculation that would indicate how much a service provider should be financed for a service, based on its performance. The detailed aims will be addressed below.



Table 6 Detailed Aims

Detailed Aim 1	Detailed Aim 2	Detailed Aim 3
<ul style="list-style-type: none"> <li>✓ Globally movement towards PBF, PBP or P4P (Outcomes based financing/ Payments) gaps- tools and calculation - %, weighting on performance, no risk.</li> <li>✓ World is moving towards shifting risk to Service provider</li> <li>✓ World is moving towards linking performance and finance.</li> <li>✓ Movement towards Output based contractual Agreements and SLA's</li> <li>✓ MDHS not there yet i.t.o. LA               <ul style="list-style-type: none"> <li>○ MDHS negotiate with LA on service and funding</li> <li>○ No Written SLA – national template available.</li> <li>○ M&amp;E system lacking</li> <li>○ Performance of LA not audited</li> <li>○ No Rewards and penalty system</li> <li>○ Information system lacking – Info of</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>✓ Outcomes based finance models are available. There are best practices available, but not all in one model. It however lack evidence on the tools to manage the process of financing, performance, risk, implementation and strategy.</li> <li>✓ The decision management systems lacks the appropriate information to support decision-making. Support for such a system is to be found in the IMBOK</li> <li>✓ Calculations or formulae are being used, but it is not appropriate to</li> </ul>	<ul style="list-style-type: none"> <li>✓ MDHS did not have a strategy initially, but managed to develop a joint plan with LA. This plan however do not support individual performance management.</li> <li>✓ MDHS did not have a performance management plan in place. It was still in the process of being developed. Performance indicators are used measure overall health performance before transfers are made, but not individually of LA. It is contended that LA is subjected to Performance appraisal before funds are transferred – Performance system still being</li> </ul>

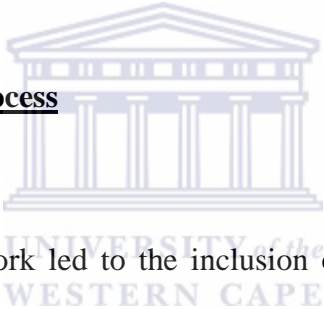
Detailed Aim 1	Detailed Aim 2	Detailed Aim 3
<p>MDHS and LA overlap and fused</p> <p>o Statement of expense the formula and basis for transfer . It is questionable whether it is most appropriate tool to as the basis to transfer funds.</p>	<p>indicate the level of funding.</p> <ul style="list-style-type: none"> <li>✓ The link between strategy and finance is regarded as feasibility. (resource feasibility)</li> <li>✓ The link between strategy and performance is a critical success factor. (areas of performance)</li> <li>✓ Departments should develop their own strategy and performance Mx Systems – Not Treasury or Finance</li> <li>✓ Restructuring should be kept to minimum</li> </ul>	<p>developed ? If LA being appropriately assessed vis a vis funding.</p> <ul style="list-style-type: none"> <li>✓ It was not evident whether the finance management system of LA is in accordance with the PFMA.</li> <li>✓ LA is not at risk of performance. They also do not know how the increase of cost should be defrayed and thus spend without considering adjustments.</li> <li>✓ There is knowledge from PGWC and LA that the available budget is limited, but the limitations are not well communicated.</li> </ul> <p>A RBMAF had not been developed as recommended in the Audit report.</p>

## **7.4 BROAD AIM 2**

Because the study was an exploratory and explanatory study, it aimed to gain new insight into the central concepts and constructs, determine priorities for future research and develop a new hypothesis about the phenomenon.

The research commenced with a two area framework in Figure 4: , developed to be the three area framework in Figure 5: . Considering the initial literature review and the triangulated literature, the conceptual framework should include a further two areas which will be explained below in 7.4.1.

### **7.4.1 New Framework and Process**



The development of the framework led to the inclusion of two new areas, which became evident after the interviews and the triangulation. The name of the framework is changed from “Transfer Fund framework” to the “Financial Determinants framework”, because the framework does not just indicate the concepts for transferring funds, but also indicate the determinants for identifying the viability of the service provider to provide the service within a specific financial envelope. The new name addresses two areas that are the performance and risk criteria that will determine whether the performance and risk-ability of the service provider is at an acceptable level for the service user, to fund the service provider. In effect it addresses the criteria that should be considered to determine whether a service user is prepared to risk financing of a service by a service provider. It also addresses the formula that will determine the level on which the service provider should be funded, given the organisational profile of the service provider.

The research will differentiate between the processes in the outsource organisation and the service provider. This figure could be regarded as the framework of the areas that should be considered for transfer funding. The main areas that were identified were strategy, performance, risk, implementation and financing.

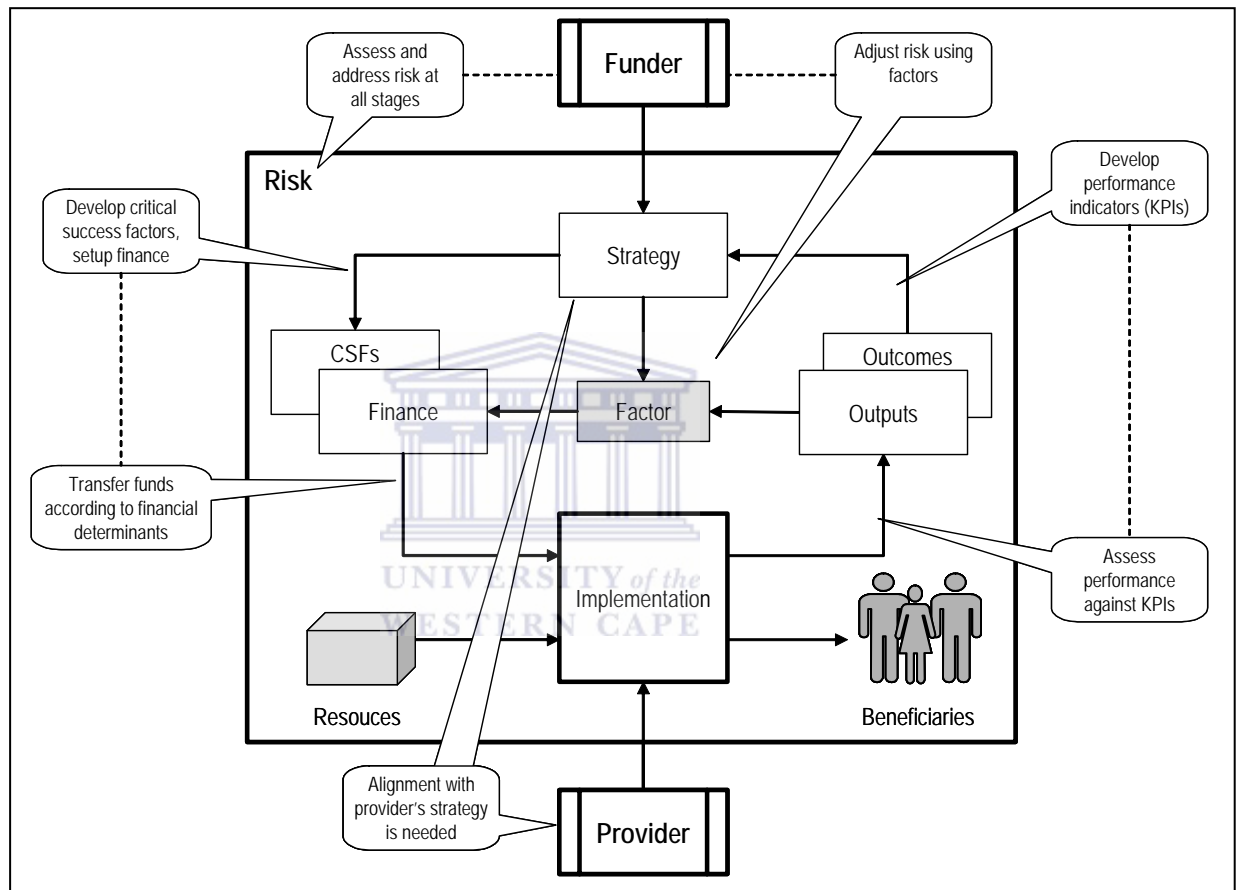


Figure 21: Financial Determinants framework (Source: Author)

- In terms of Figure 21 the organisational strategy provide direction of where the organisation wish to go. In an effort to achieve the organisational targets, both the service provider and -user should endeavour to align their strategies. A decision on whether to outsource a service would lead to identifying the areas of performance for the service user and for the service provider. The service provider should align its own strategy with that of the service user. It is however advisable to have a joint

strategy where there is agreement on the joint outcomes. A risk assessment should be done in the internal environment of the service user. A risk assessment should also be done on the service provider and the impact that this risk will have on the service user. If the risk that the service provider poses is at an acceptable level, a plan should be developed on how to manage the risk of both organisations. The strategy-, performance- and risk management plans should then be implemented. The implementation will include the transfer of an agreed amount and delivery of the service. The service should be delivered in terms of the agreed service plan. The performance outcomes are measured and risk management is reviewed in terms of the results of the service that was provided or according to what was implemented. Follow up funding and renewal of the agreement would be dependent on the outcome of the service that had been provided and the inherent risk of the service provider to the service user, to achieve the goals of the service user (Goldfield et al, 2005, Hecht et al, 2004, Berens & Company Investment Bankers, Juneau Economic Development Council, Seedfinancing and World Summit on Sustainable Development).

The identified links were critical success factors that should be considered after designing a strategy. Feasibility of service delivery is a link between strategy and finance, because a system would not be properly implemented if there were insufficient resources to affect the plan. Key performance factors are identified to measure the implementation of the plan. At the same time risk factors are adjusted to ensure smooth implementation. At the same time while the service is delivered, risk is management and reviewed. This will lead to the development of a risk profile of the organisation that has to provide the service. Performance of the implementation or service delivery is measured through indicators. The gap that had been identified is between the performance measurement and risk, just before funds are

transferred. Before the funds are transferred the weightings and ratings of the risk and performance should be considered. This consideration will indicate how much more money should be transferred to the service provider.

Added to the framework is a process model that addresses the process that should be followed to manage the transfer payment. It includes a generic model and a monitoring and evaluation model. As indicated above the framework was named the Financial Determinants Framework, as the criteria and factors that are used aims to establish or determine the funding of a service that is provided by a service provider. The three seemingly similar figures below indicate the process that should be followed in transferring funds from a service user to a service provider. The 1<sup>st</sup> figure shows the full process. The second highlight the area of monitoring and how it should be managed. The third highlight the process of evaluation and how it should be managed.

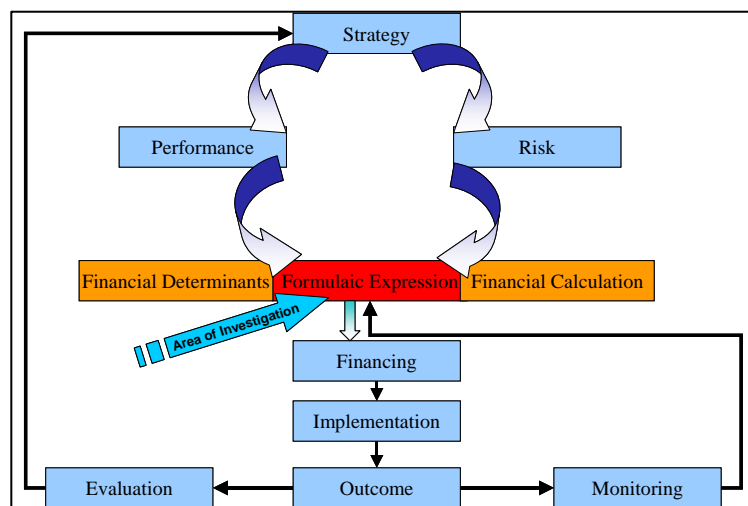
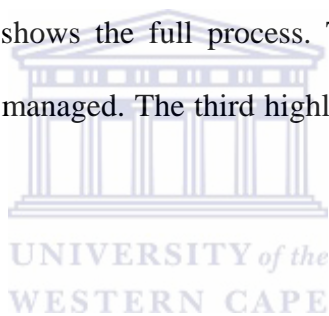
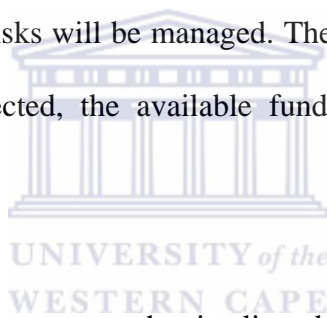


Figure 22 Financial Determinants Framework 1 (Source: Author)



Figure 22 portrays the process that should be followed for managing the transfer of funds. The process for the service user and the service provider is similar in certain regards but also different. The service user has to develop a strategy. The service provider aligns its strategy with that of the service user. Based on the strategy, critical success factors should be identified from which the performance indicators and targets flow. The organisation then needs to identify the risk factors that may impact on the implementation of the strategy. A decision is then made whether the service should be in-sourced or outsourced. If a decision is made that the service will be outsourced, the service user needs to identify which performance targets are required to measure the performance of the service provider, which internal attributes must the service provider comply with, the risks that the service user is prepared to accept and how the risks will be managed. The service provider is then procured based on what targets are expected, the available funding for the service and the risk attributes of the service provider.



The service provider will design a strategy that is aligned with that of the service user. It is however of more value if a joint strategy is agreed on by the service user and the service provider. The service provider agrees with the performance outcomes and the monitoring and evaluation periods through a service level agreement with the service user. The service user, based on the service level agreement and the acceptance of the risk by the service provider, transfers funds to the service provider. The service provider then proceeds to implement the strategy to achieve the agreed on targets.

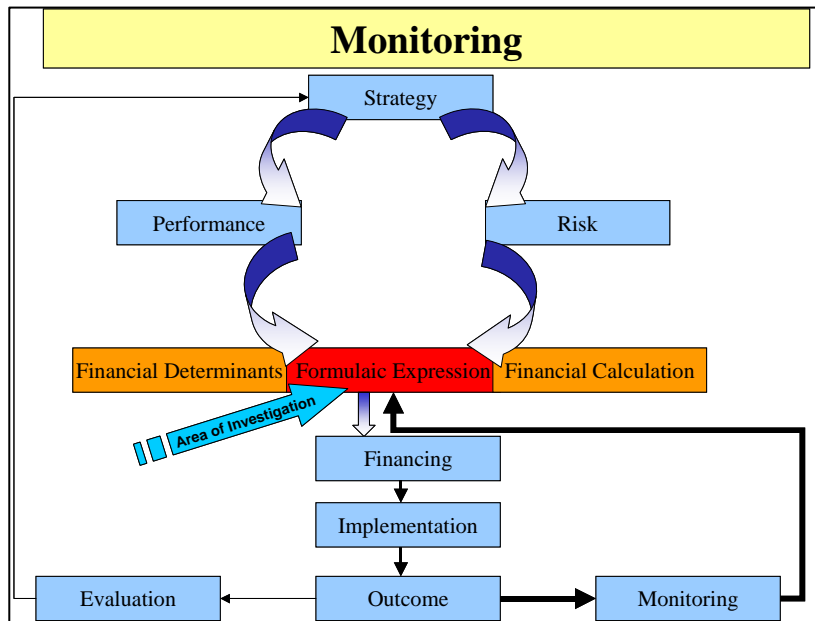


Figure 23 Financial Determinants Framework 1 Monitoring (Source: Author)

After the service provider implemented the strategy the service user will monitor the implementation of the strategy to establish whether the agreed on targets had been met, refer to Figure 23. It is advisable that a reputable and independent company do such monitoring and evaluation. Funds re transferred as per the service level agreement for targets that are met during the monitoring period.

Figure 24 Financial Determinants Framework 1 Evaluation is indicated for evaluation purposes.

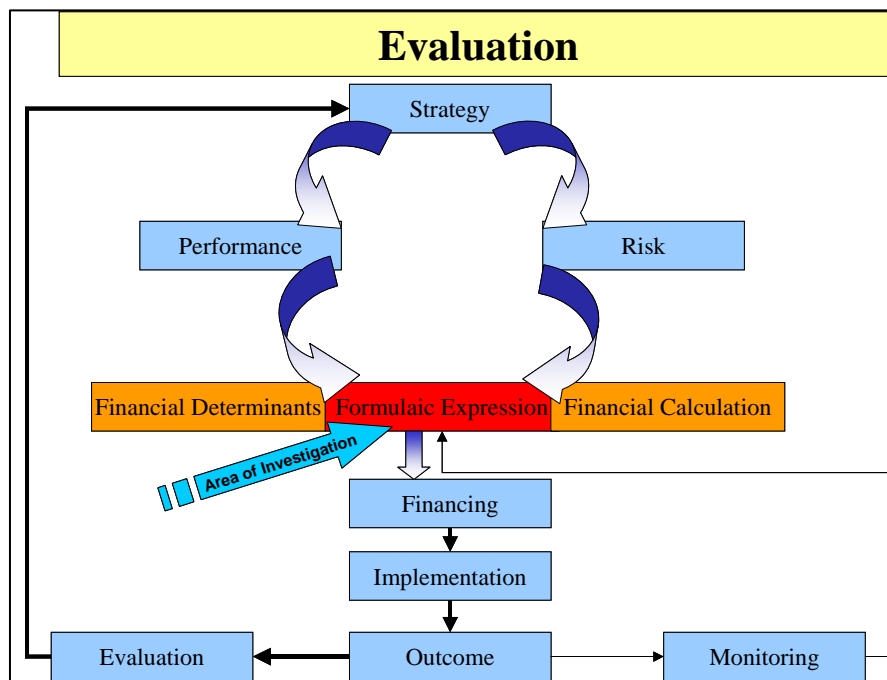


Figure 24 Financial Determinants Framework 1 Evaluation (Source: Author)

At the end of the financial cycle an evaluation is made on the achievement of the agreed targets and the implementation of the strategy. A final amount is transferred as per the agreed service level agreement. An assessment is now made based on the achievements of the targets and the internal risk attributes of the service provider. Based on the aforementioned and the overall strategy of the service user, a new service level agreement is drawn up and the service provider start with implementation again.

## 7.5 THE QUESTIONS THAT WERE RAISED AT THE BEGINNING OF THE THESIS:

### 7.5.1 Is an expenditure report an adequate basis for payment, or should a calculation or formula be used?

It is evident through the literature and the interviews that an expenditure report is not an adequate basis to effect payment for a service. From the framework, it can be noted that a formula would assist management in making the final decision about the amount that should

be transferred. It is thus advisable for a formula to be used. This formula should however not just be based on the financials of the service provider or the service user, but also on the organisational abilities and conditions of the service provider and the management risk that the service user is prepared to endure.

### **7.5.2 What process should be followed to ensure that the required planned and agreed outcomes are achieved?**

The process as depicted in Figure 22 Financial Determinants Framework 1 (Source: Author), Figure 23 Financial Determinants Framework 1 Monitoring (Source: Author) and Figure 24 Financial Determinants Framework 1 Evaluation (Source: Author) best explains the process that should be followed

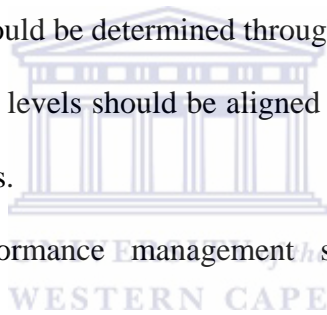
### **7.5.3 Once transferred, were the funds suitably appropriated?**

The managers in the PGWC:DoH cannot verify whether the funds are suitably appropriated. The contention is that the system is not transparent enough to elicit such information. It would be more appropriate for a person with an auditing background to engage in this process.

## **7.6 RECOMMENDATIONS**

- ✓ The financial determinants framework to be refined (see recommended framework – financial determinants) Include the appropriate model, the performance plan, risk plan, funding plan and formula, implementation plan and strategy.
- ✓ The transfer funding process to be refined (see recommended process)
- ✓ A formula should be investigated that can be used to establish the level of funding and should then be developed.
- ✓ The RBMAF as recommended by Auditor should be investigated and implemented

- ✓ The restructuring process to be expedited or appropriately managed in conjunction with strategic management of transfer payments.
- ✓ Health managers should be the drivers of Strategy and Performance management. The Finance and Treasury sections should be the advisors and support on financial integration for planning and implementation and to ensure appropriate management of the finances in terms of the PFMA. A balance thus need to be sought between the PSA/PSR and the PFMA and the PFMA regulations.
- ✓ The service provider (LA) should bear the risk of outcome funding rather than input funding. The management of the service should include service and products. An appropriate contractual agreement and SLA should be developed for this.
- ✓ The cost of the service should be determined through, preferably, ABC.
- ✓ The strategies of different levels should be aligned to direct all resources and process to achieve the same targets.
- ✓ Integrate available performance management systems to the benefit of the organisation.
- ✓ The IMBOK model could be applied to ensure information systems that could generate strategic benefit for the PGWC and to support decision-making. (Appropriate decision support systems needed)
- ✓ The information of MDHS should be de-linked from LA, for individual performance and audit purposes. The joint plan should be supported by an individual plan and performance measures.
- ✓ Finance system of LA to be investigated to see if it conforms to the principles of the PFMA.



## CHAPTER 8

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## CHAPTER 9

### 9. APPENDICES

Table 7: Proposed Structure of Strategic Plans (Source: Technical Committee on Finance  
Proposed Generic Format for Strategic Plans of Provincial Departments - 11 July 2002)

<b>PART A: STRATEGIC OVERVIEW</b>	
3.1	STATEMENT OF POLICY AND COMMITMENT BY – THE MEC
3.2	OVERVIEW BY THE ACCOUNTING OFFICER
3.3	VISION
3.4	MISSION AND STRATEGIC GOALS
3.5	VALUES
3.6	LEGISLATIVE AND OTHER MANDATES
3.7	DESCRIPTION OF STATUS QUO
3.7.1	<i>Summary of service delivery environment and challenges</i>
3.7.2	<i>Summary of organisational environment and challenges</i>
3.8	DESCRIPTION OF STRATEGIC PLANNING PROCESS
<b>PART B: PROGRAMME AND SUB PROGRAMME PLANS</b>	
3.9	STRATEGIC OBJECTIVES
3.10	MEASURABLE OBJECTIVES, STRATEGIES/ACTIVITIES, OUTPUTS, MEASURES AND MONITORING MECHANISMS
3.11	PERFORMANCE TARGETS AND MTEF BUDGETS
3.12	RECONCILIATION OF BUDGET WITH PLAN BY PROGRAMME
3.13	MEDIUM-TERM REVENUES
3.13.1	<i>Summary of revenue</i>
3.13.2	<i>Departmental revenue collection</i>

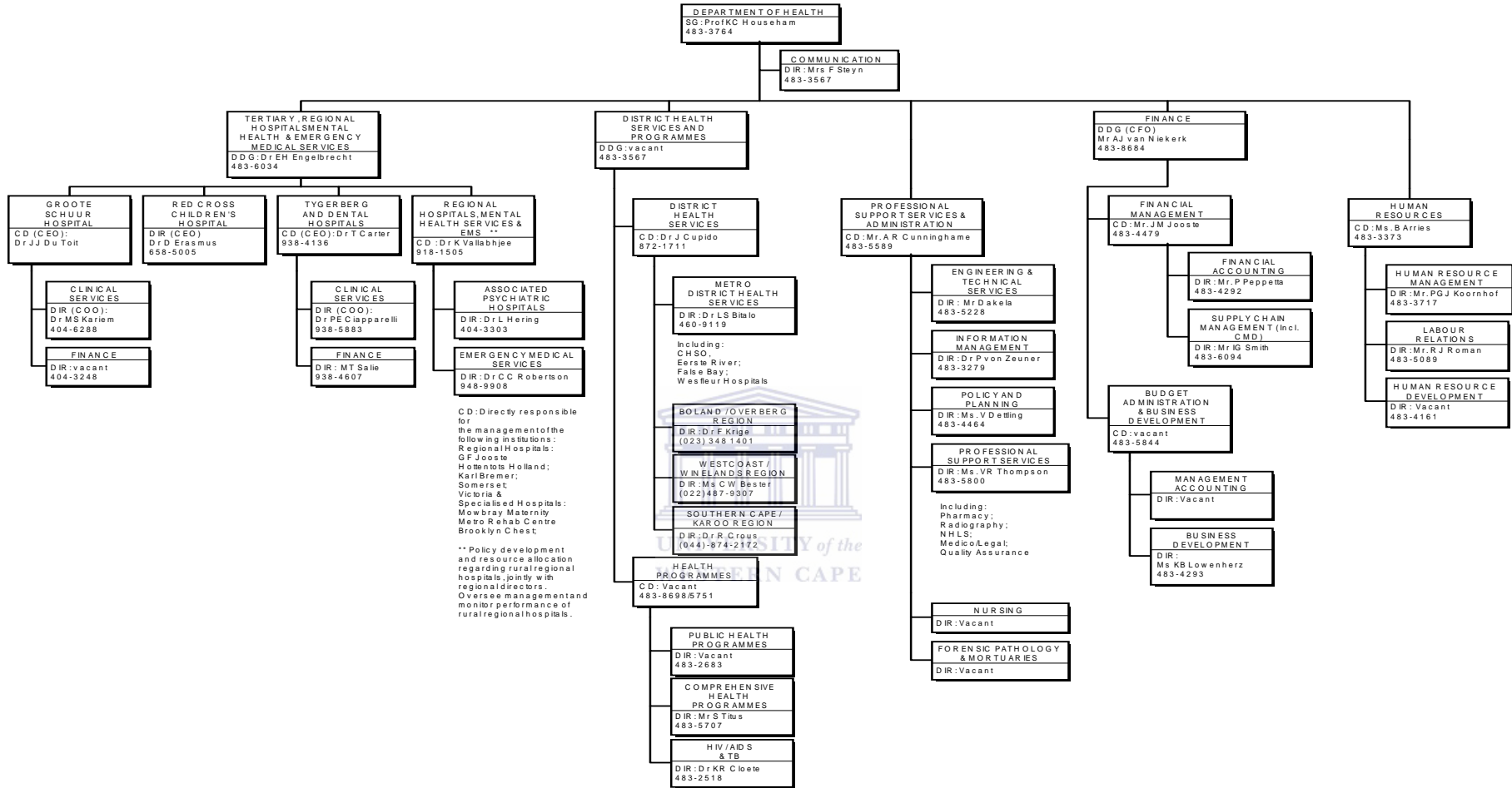


3.13.3	<i>Conditional Grants</i>
3.14	CO-ORDINATION, CO-OPERATION AND OUTSOURCING PLANS
3.14.1	<i>Interdepartmental linkages</i>
3.14.2	<i>Local government linkages</i>
3.14.3	<i>Public entities</i>
3.14.4	<i>Public, private partnerships, outsourcing etc.</i>
3.15	FINANANCIAL MANAGEMENT:
3.15.1	<i>Strategies address audit queries</i>
3.15.2	<i>Implementation of PFMA</i>
PART C: BACKGROUND INFORMATION	
3.16	APPENDIX ONE: ANALYSIS OF SERVICE DELIVERY ENVIRONMENT
3.16.1	<i>Policy changes and trends</i>
3.16.2	<i>Environmental factors and emerging challenges</i>
3.16.2.1	Demographic profile of the province
3.16.2.2	Employment, income and [other relevant information]
3.16.2.3	[Health, education, welfare etc] profile of people in the province
3.16,3	<i>Evaluation of current implementation performance</i>
3.17	APPENDIX TWO: ORGANISATIONAL INFORMATION AND THE INSTITUTIONAL ENVIRONMENT
3.17.1	<i>Organisational design</i>
3.17.1	<i>Delegations</i>
3.17.3	<i>Capital investment. Maintenance and asset management plan</i>
3.17.3.1	Long term capital investment and asset management plans
3.17.3.2	Capital investment plan

3.17.4	<i>9.1.1.1.1.1.1 Personnel</i>
3.17.5	<i>IT systems</i>
3.17.6	<i>Performance management system</i>
3.17.7	<i>Financial management</i>
3.17.8	<i>Audit queries</i>
3.17.9	<i>Internal audit</i>
3.17.10	<i>Implementation of PFMA</i>
3.18	APPENDIX THREE: ANALYSIS OF CHANGES TO PROGRAMMES



# DEPARTMENT OF HEALTH: APPROVED MACRO STRUCTURE



A post of Administrative Assistant is allocated to each post of Director and higher

Figure 25: Department of Health Approved Macro Structure. (Source: PGWC DoH)