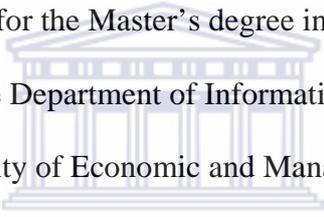


Title

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

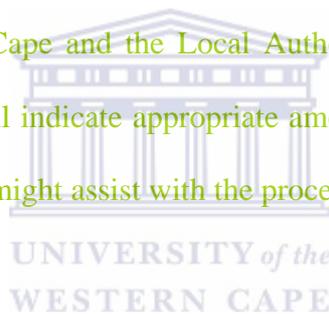
Financial determinants



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

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UNIVERSITY of the
WESTERN CAPE

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

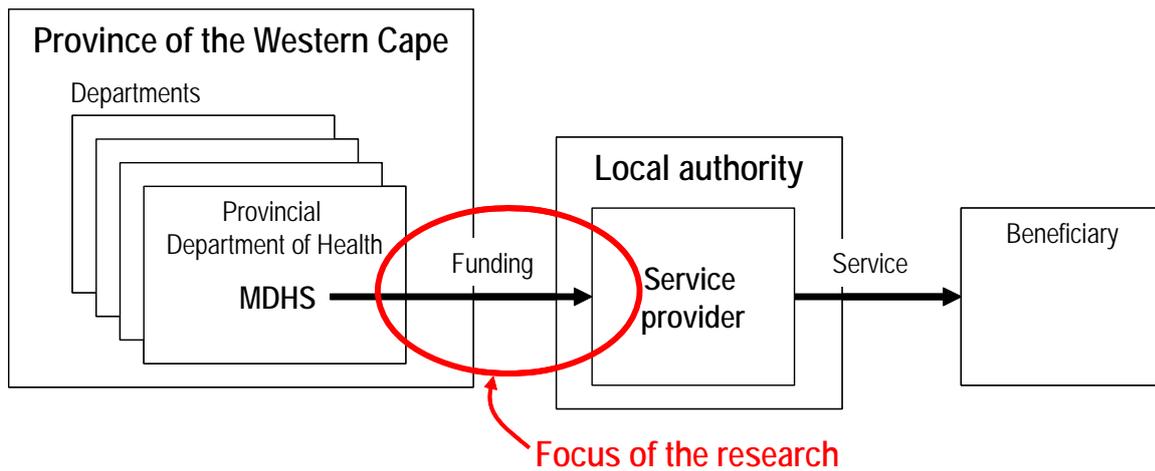


Figure 1: Focus of the Research. (Source: Author)

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).

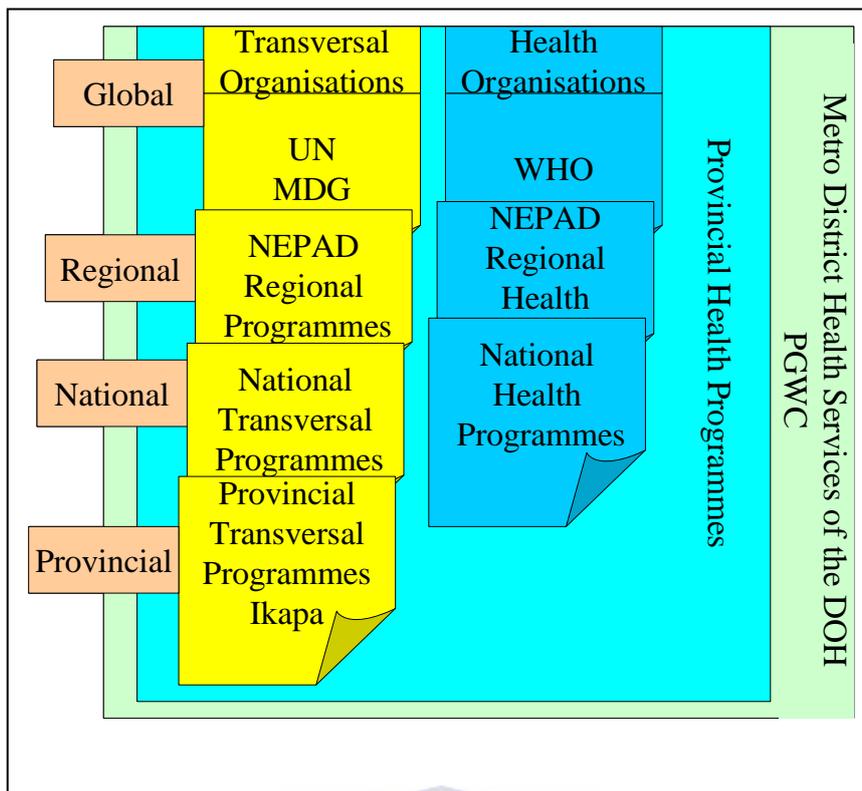


Figure 2: Organisations whose strategy impacts that of the MDHS of the PGWC (Source: Author)

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

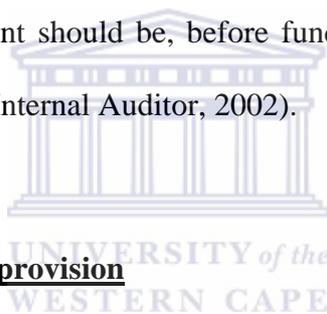
A service recipient is an entity that is the final receiver of a service that has been provided by a service provider. In this context, it will be a person in the community who receives the service that is provided by the secondary service provider.

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.

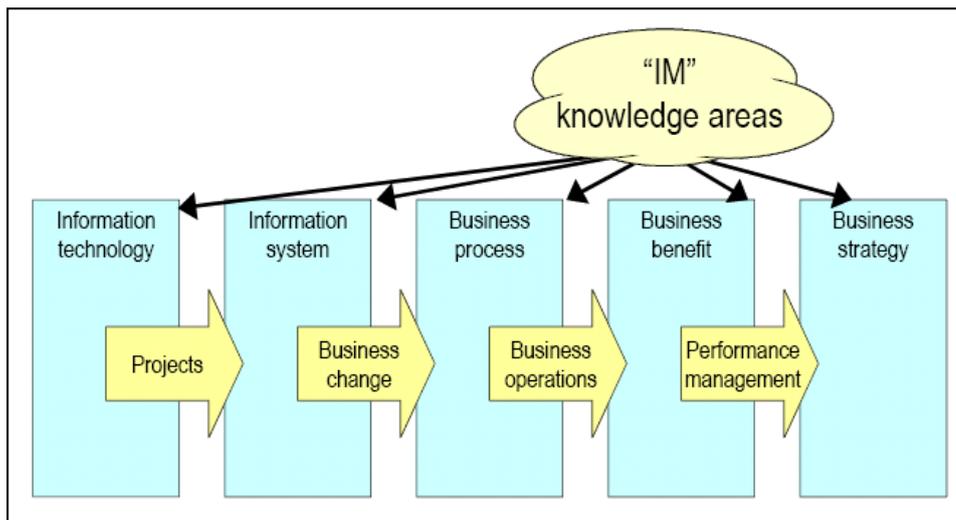


Figure 3: The Information Management Body of Knowledge (Source: Bytheway: 2004)

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.

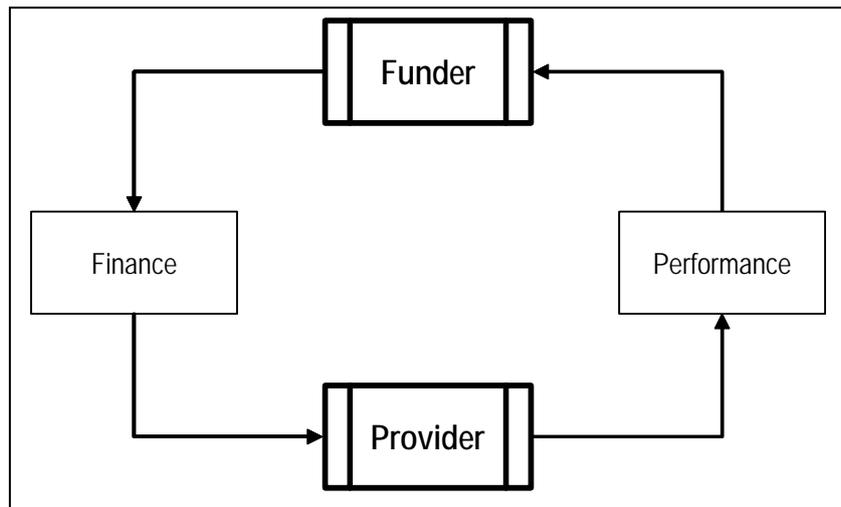


Figure 4: Factors that determine financing according to performance (Source: Author)

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

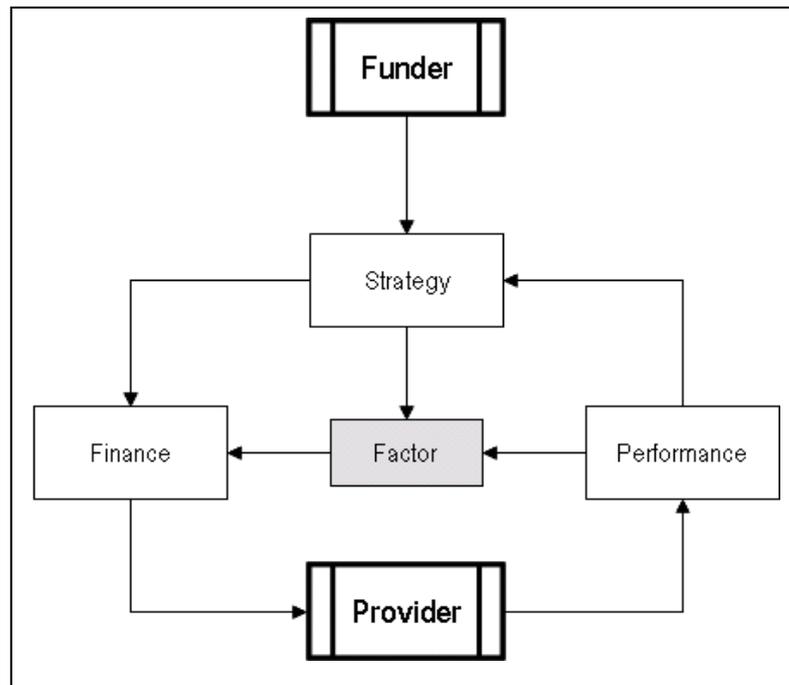
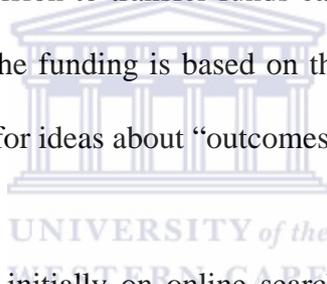


Figure 5: Strategy as an additional area of concern Working Version (Source: Author)

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.

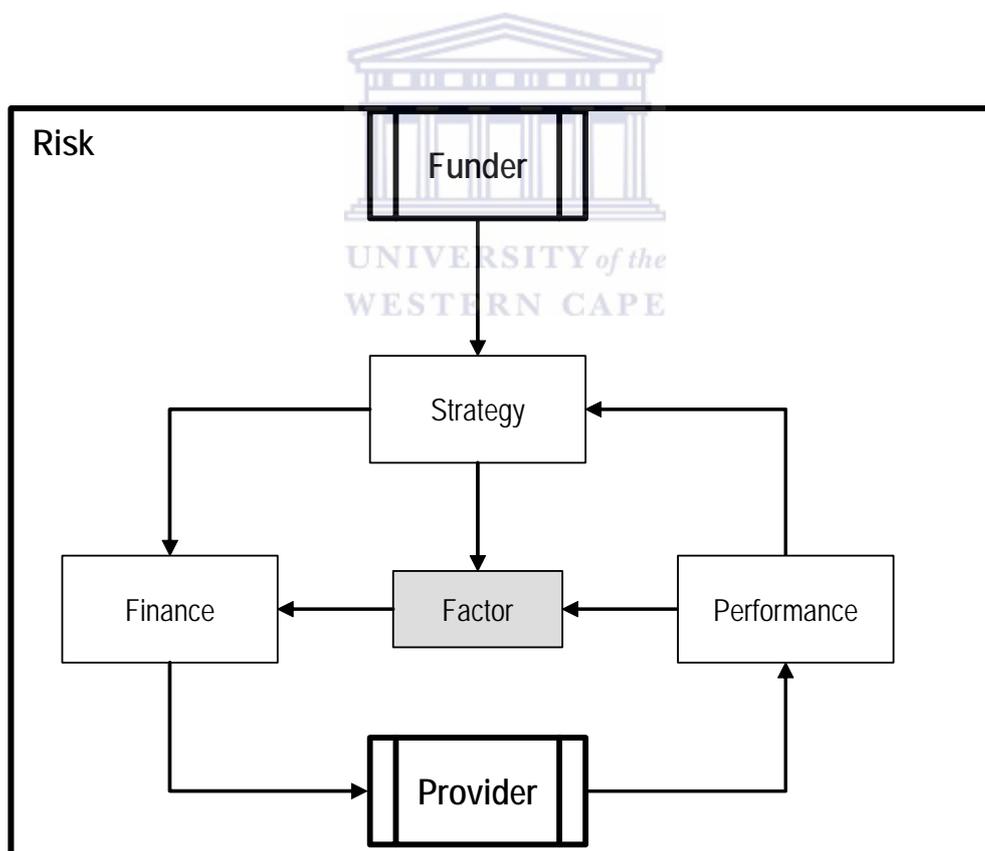
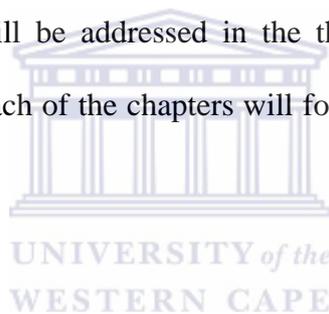


Figure 6: The Financial Determinants framework Working Version (Source: Author)

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.

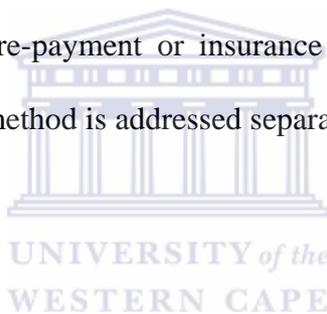
2.2 FINANCE OVERVIEW

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.

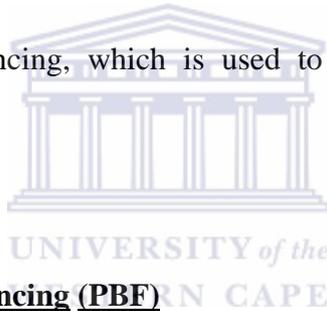
2.3.2 Pre-payment or insurance

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

