

Performance Contracting Aspects and Strategy Implementation in Public Corporations in Kenya

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Abstract

Literature suggests that performance contracting plays a significant role in strategy implementation. Many studies have been done on performance contracting, but none has focused on the effect of performance contracting aspects on implementation of strategy. This study aimed at establishing the effect of performance contracting aspects on strategy implementation in public corporations in Kenya. The study targeted 168 public corporations in Kenya out of which a sample of 117 corporations was studied. The data was collected using questionnaires. Regression analysis was used to determine the effects of performance contracting aspects on strategy implementation. The results revealed that performance contracting aspects that is, performance agreement, evaluation and recognition singly and jointly had a positive effect on strategy implementation. The study therefore recommends that public corporations should embrace performance contracting to enhance strategy implementation. The study makes recommendations for further research.

Keywords: Performance contracting, Performance agreement, performance evaluation, performance recognition and strategy implementation

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1. Introduction

Performance contracting has been applauded as an effective and promising way of ensuring the performance success in private and government owned institutions around the globe (Kwedho, 2015). The concept of performance contracting has been applied with great success in different countries around the world for instance, India, South Korea, France, Malaysia and Pakistan. According to Muraguri and Wagoki (2016), performance contracting plays a significant role as a promoter of strategy implementation. It has been postulated to boost the relationship between strategy implementation and organizational performance (Muraguri & Wagoki, 2016). Stetler et al. (2009) also reported that making performance contracting as a norm and culture of the organization is a crucial factor in ensuring that it is well adopted and established so as to ensure the success of strategy implementation.

Despite the fact that performance contracting appears to play a critical role in ensuring success in strategy implementation, there appears to be scanty empirical literature on the relationship between performance contracting aspects (Performance agreement, performance evaluation and performance recognition) and strategy implementation. Past studies on performance contracting have focused on the challenges of performance contracting with little attention on performance contracting aspects and their effect on strategy implementation. This study therefore sought to examine the effect of performance contracting aspects (performance agreement, performance evaluation and performance recognition) singly and jointly on strategy implementation in public corporations in Kenya.

2. Literature Review

Performance contracting is a management tool for ensuring accountability among employees and achievement of targeted results (Geier, 2016; Pearce & Manz, 2011). Performance contracting comprises of a variety of administrative tools to outline the duties expected from parties to achieve jointly agreed results (Nyaigo et al., 2013). Its objective is to get the best out of the process and thus improve the performance of the whole institution (Nguthuri et al., 2013). According to Stetler et al. (2009), making performance contracting as a norm and culture of the organization is a crucial factor in ensuring that it is well adopted and established to ensure the success of any strategy implementation. Its success requires well-conceived plans which can be smoothly adopted and implemented as part of the mandates to be achieved by the employees.

Majority of organizations have developed good strategic plans but have never yielded results because they are never implemented (Cheche & Muathe, 2014). According to Witcher and Chau (2010), the process of strategy implementation is the most important process in strategic management for it will determine whether a company or an institution will stand the stormy market or not. Deshpande (2010) states that for any company to stand the test of time in the dynamic market, it must design a good strategy to counter the effects of its weaknesses and face the threats. Hence institutional heads have a task of putting in place ways of adjusting to new trends in the world of business so as to maintain relevance in the dynamic business environment. Performance contracting and its

aspects has been identified to be one of the most important ways of ensuring the strategic plans are met. There are three aspects of performance contracting as proposed by Armstrong and Baron (2010) which include performance agreement, performance evaluation and performance recognition. Performance plan must have an agreement on what has to be done to achieve the objectives, what should be the standard of performance, what skills should be imparted and how information (feedback) on progress should be channeled. Within the context of performance evaluation, an employee's achievement of the objectives in the work plan needs to be evaluated and outstanding performance rewarded.

Performance contracting involves the execution of a performance agreement between a principal or a higher authority, acting as the owner of an agency, and a subordinate or agent, with the purpose of promoting the delivery of specific results in an effective and efficient manner (Petrie, 2002). In the public service, performance contracting is described as the execution of a performance agreement freely negotiated between the government, which acts as the owner of a public agency and the administration of the agency (Petrie, 2002). Performance agreement comprises of a collection of management tools used to characterize responsibilities and expectations among the parties to permit them to attain specific and mutually agreed results (Mbua & Sarisar, 2014). Performance agreement also involves making the employees own the laid down strategic plans. A study by Muraguri and Wagoki (2016) on the influence of performance contracting on strategy implementation showed that organizational performance improves especially when employees own the strategy. A study by Awino and Saoli (2014) on the perception of performance contracting strategy also showed that engagement of employees in the process plays a great role in its success and affects the management commitment. In view of these arguments and empirical evidence, the following hypothesis was proposed: H1: Performance agreement has a positive effect on strategy implementation.

Performance evaluation is another performance contracting aspect that plays an important role in meeting the set strategic plans (Ingle et al., 2011). The result of the process is the combination score; comparing the performance of one organization with that of the others, separating the good from the poor performers and classify them in order of performance (Spekle & Verbeeten, 2014). Performance evaluation requires that employers should periodically assess the performance of their employees to ensure that the goals of the organization are met as set (Armstrong & Baron, 2010). In Kenya, it is now a philosophy in all state corporations to develop annual strategic plans to serve as the guide of achieving their targets. The set annual strategic plans are evaluated at quarterly intervals to ensure that the strategies are taking the expected course (Obongo, 2009). Therefore, the following hypothesis was proposed: H2: Performance evaluation has a positive effect on strategy implementation.

Performance recognition as another aspect of performance contracting, is perceived as a way of utilizing the values of the employees for the benefit of the company by rewarding the best performing employees (San et al., 2012). According to Armstrong and Baron (2010), employee rewards come in many ways ranging from giving of medals to other material gifts. Involvement of employees in decision making is also a simplest way of recognition as it motivates them and makes them have sense of belonging (Luthans et al., 2008). Sajuyigbe et al. (2013) stated that recognising the best employees is a good strategy in ensuring the success of the organization thus the rewarding systems should be well designed so as to align with the welfare of the employees as well as ensuring excellent execution of organizational strategy. The following hypothesis was proposed: H3: Performance recognition has a positive effect on strategy implementation.

3. Research Method

3.1 Population and Sample

The study targeted 168 public corporations in Kenya. The corporations were classified into five (5) broad categories namely; commercial state corporations, state corporations with strategic functions, executive agencies, independent regulatory state corporations and finally, education, research and training institutions. Due to the large population, a sample of 117 institutions was used in the study as shown in Table 1.

Table 1: Distribution of category of State Corporation, Population and Sample

Category of State Corporation	Population	Sample size
Commercial state corporations	32	23
State corporations with strategic functions	19	13
Executive agencies	52	36
Independent regulatory State Corporations	20	14
Education, Research and Training institutions	45	31
Total	168	117

3.2 Data collection

The study used primary data which was gathered by the use of questionnaires. The questionnaire was structured into three sections: the first section contained questions on the respondent's demographic data and the profiles of the corporations. The second section contained questions on performance contracting and the third section dealt with strategy implementation. The respondents were executive officers of the corporations who were considered informed on issues of performance contracting and strategy implementation.

3.3 Measurement of Variables

In this study, the independent variable was performance contracting aspects while the dependent variable was strategy implementation. Performance contracting was measured in terms of performance agreement, evaluation and recognition (Allen & Seaman, 2007; Armstrong & Baron, 2010). A five point Likert scale ranging from strongly disagree (1) to strongly agree (5) was used to collect the data on the dimensions of performance contracting. Strategy implementation was also measured in terms of success of strategy implementation (Rajasekar, 2014). Data on success of strategy implementation was collected using a five point Likert-type scale ranging from not at all (1) to very great extent (5).

3.4 Data Analysis

This study utilized percentages, means and standard deviation to describe the study variables. Pearson's correlation analysis was used to examine the relationships between performance contracting aspects and strategy implementation. Simple regression analysis and multiple regression analysis were used to test the research hypotheses.

4. Results and Discussion

4.1 Response Rate

A total of 117 questionnaires were administered and 113 of them were filled and returned giving a response rate of 96.6%. The response rate was considered to be very good since it is above the standard rate of 70% as asserted by Babbie (2004).

4.2. Reliability of the Instruments

Cronbach's alpha coefficient was computed to assess the reliability of the instrument. Cronbach's alpha coefficient of 0.70 was interpreted to mean that the instrument was reliable (Yang & Green, 2011). The dimensions of performance contracting aspects and strategy implementation were subjected to reliability test and the results showed Cronbach alpha of 0.923 for strategy implementation, 0.986 for performance agreement, 0.883 for performance evaluation and 0.817 for performance recognition. Thus, all the variables of the study had an alpha coefficient greater than 0.7 showing that the instrument was reliable (Mugenda & Mugenda, 2008).

4.3 Descriptive Statistics for the Study Variables

The study examined performance contracting aspects in the organizations. This was analyzed using means and standard deviations as shown in Table 2.

Table 2: Performance Contracting Management Aspects

Performance Agreement	N	Mean	Std. Dev.
My organization has put in place performance contracts	113	4.41	1.300
Employee in my organization understand performance contracting	113	4.01	1.201
Performance agreements are a two way exchange and the determination is of mutual agreement	113	4.11	1.261
Performance targets are time bound	113	4.56	1.271
The annual organization development plan document is employed as a guide for the various divisions within the corporation	113	4.81	1.302
Every department in my organization sets performance targets	113	4.76	1.264
Every department in my organization sets performance targets	113	4.90	1.142
Performance contracts in my organization are drawn in line with the organizations strategic plan	113	4.76	1.363
Mean		4.54	1.263
Performance Evaluation	N	Mean	Std. Dev.
Managers in my organization periodically assess the performance of the subordinates	113	4.90	1.142
The performance evaluation is done based on the accomplishment of the objectives within the work plan	113	4.01	1.261
Performance evaluation in my organization provides a basis to evaluate success of implementation of the corporate strategic plan	113	4.56	1.271
Mean		4.49	1.225
Performance Recognition	N	Mean	Std. Dev.
Our organization has a performance recognition program in place	113	4.02	1.271
Performance recognition programs at my organization do not make much difference to my work	113	4.71	1.201
Performance recognition is a strong part of our organization culture	113	4.01	1.261
Rewards and recognition programs are communicated to the employees at the beginning of year	113	4.56	1.271
People who perform their jobs well generally get rewarded	113	4.81	1.302
Giving staff non-monetary rewards for good performance helps in strategy implementation	113	4.61	0.972
In our organization success is celebrated to reinforce desired behavior	113	4.90	1.142
Mean		4.52	1.203
Strategy Implementation	N	Mean	Std. Dev.
There is improved service delivery in my organization	113	4.23	1.218
Activities in the organization are performed as scheduled	113	4.61	0.972
There is ownership of strategy implementation by most of the staff in my organization	113	4.01	1.352
Resources are allocated as budgeted	113	4.02	1.271
Strategy implementation in my organization achieves set goals and objectives	113	4.81	1.302
Mean		4.34	1.223

As depicted in Table 2, most public corporations in Kenya have incorporated performance agreement in their performance contracting. This was depicted by the respondents who agreed with a mean of 4.54 that their organizations have put in place performance contracting and employees own it. The results on Table 2 also depict that majority of the respondents with a mean of 4.49 accept that performance evaluation was being conducted in their institutions. With a mean of 4.52, majority of the respondents agreed that recognition of performing employees was being practiced in their organization. Further, the majority of the respondents confirmed that their

institutions had laid strategic plans that were being implemented under a specified time.

4.4 Correlation Analysis

The study examined the relationship between performance contracting aspects and strategy implementation. This was done using Pearson correlation analysis. The results of correlation analysis are as shown in Table 3.

Table 3: Correlation matrix for Performance agreement, Performance evaluation, Performance Recognition and Strategy implementation

		Performance agreement	Performance Evaluation	performance Recognition	Strategy implementation
Performance agreement	Pearson Correlation	1	.656**	.864**	.712**
	Sig. (2-tailed)		.004	.000	.000
	N	113	113	113	113
Performance Evaluation	Pearson Correlation	.656**	1	.840**	.805**
	Sig. (2-tailed)	.004		.000	.000
	N	113	113	113	113
Performance Recognition	Pearson Correlation	.864**	.840**	1	.715**
	Sig. (2-tailed)	.000	.000		.000
	N	113	113	113	113
Strategy implementation	Pearson Correlation	.712**	.805**	.715**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	113	113	113	113

** . Correlation is significant at the 0.05 level (2-tailed).

The correlation results in Table 3 show a significant positive relationship between performance agreement and strategy implementation ($r = 0.712$, $p < 0.05$). The results also showed a significant positive correlation between performance evaluation and strategy implementation ($r = 0.805$, $p < 0.05$) as well as a significant positive correlation between performance recognition and strategy implementation ($r = 0.715$, $p < 0.05$).

The findings of this study reveal a positive relationship between performance agreement and strategy implementation which is consistent with the findings of the study by Gollan (2004). Performance evaluation was also found to be positively and significantly related to strategy implementation. The findings of this study are consistent with the findings of a study by Kangangi (2014) which attributed strategy implementation success to performance evaluation exercise. The findings of the study are also consistent with the findings of Upadhyay and Palo (2013) who also found that performance evaluation results to performance oriented culture hence strategy implementation is made easier. Further, the findings of this study are consistent with the results by Kobia and Mohammed (2006) which revealed that appreciation of employees for their good performance goes a long way in the success of strategy implementation. In general, the study findings indicate that performance agreement, performance recognition and performance evaluation are positively related to strategy implementation success.

4.5 Test of Hypotheses

4.5.1 Performance Agreement and Strategy Implementation

The study aimed to determine the effect of performance agreement on strategy implementation. It was hypothesized (Hypothesis H1) that performance agreement has a positive effect on strategy implementation. Simple regression was used to analyze the data and the results were as shown in Table 4.

Table 4: Simple Regression Results on the effect of Performance Agreement on Strategy Implementation
 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.712 ^a	.507	.486	9.0778	.507	23.656	1	23	.000
ANOVA ^a									
Model		Sum of Squares	df	Mean Square	F	Sig.			
1	Regression	1949.436	1	1949.436	23.656	.000 ^b			
	Residual	1895.354	23	82.407					
	Total	3844.790	24						
Coefficients ^a									
Model		Unstandardized Coefficients		Standardized Coefficients		t	Sig.		
		B	Std. Error	Beta					
1	(Constant)	6.021	3.399			1.772	.090		
	Performance agreement	.698	.144	.712		4.864	.000		

a. Dependent Variable: Strategy implementation

b. Predictors: (Constant), Performance agreement

From the study findings in Table 4, the value of R-square is 0.507. This implies that 50.7% of variation in strategy implementation was explained by performance agreement. The ANOVA analysis shows that regression model was statistically significant ($F = 23.656, p < 0.05$). The standardized coefficient shows that the effect of performance agreement on strategy implementation is positive and significant ($\beta = 0.712, t = 4.864, p < 0.05$). The results of the study support the hypothesis that performance agreement has a positive effect on strategy implementation. The findings of this study are in agreement with the findings by Gollan (2004) that found out that performance agreement results to outcome of intended results in strategy implementation process.

4.5.2 Performance Evaluation and Strategy Implementation

This part of the study aimed to determine the effect of performance evaluation on strategy implementation. It was hypothesized (Hypothesis H2) that performance evaluation has no significant effect on strategy implementation. Simple regression was used to analyze the data and the results are as shown on Table 5.

Table 5: Simple Regression Results on the effect of Performance Evaluation and Strategy Implementation
 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.806 ^a	.650	.623	8.5734	.650	24.091	1	13	.000	
ANOVA ^a										
Model		Sum of Squares	df	Mean Square	F	Sig.				
1	Regression	1770.745	1	1770.745	24.091	.000 ^b				
	Residual	955.531	13	73.502						
	Total	2726.276	14							
Coefficients ^a										
Model		Unstandardized Coefficients		Standardized Coefficients		t	Sig.	Correlations		
		B	Std. Error	Beta				Zero-order	Partial	Part
1	(Constant)	5.821	3.646			1.597	.134			
	Performance evaluation	.709	.144	.806		4.908	.000	.806	.806	.806

a. Dependent Variable: Strategy implementation

b. Predictors: (Constant), Performance evaluation

As per the findings in Table 5, the value of R-Square is 0.650. This implies that 65% of variation in strategic implementation was explained by performance evaluation. Analysis of variance (ANOVA) show test that model was statistically significant ($F = 24.091$, $p < 0.05$). The standardized coefficient shows that the effect of performance evaluation on strategy implementation is positive and significant ($\beta = 0.806$, $t = 4.908$, $p < 0.05$). Hence, the results support the hypothesis that performance evaluation has a positive effect on strategy implementation. In general, the study showed that performance evaluation significantly affects strategy implementation agreeing with the findings by Kangangi and Kamure (2014) who found out that frequent follow up of laid out mechanisms to achieve the goals of any organization always results in the success of the strategy implementation.

4.5.3 Performance Recognition and Strategy Implementation

This part of the study aimed to determine the effect of performance recognition on strategy implementation. It was hypothesized (Hypothesis H3) that performance recognition has a positive effect on strategy implementation. Simple regression was used to analyze the data and the results are as shown in Table 6.

Table 6: Simple Regression Results on the effect of Performance Recognition and Strategy Implementation
 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.715 ^a	.512	.490	9.0326	.512	24.103	1	23	.000

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1966.468	1	1966.468	24.103	.000 ^b
	Residual	1876.514	23	81.588		
	Total	3842.982	24			

Coefficients ^a									
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations		
		B	Std. Error				Beta	Zero-order	Partial
1	(Constant)	6.607	3.279		2.015	.056			
	% Recognition	.645	.131	.715	4.909	.000	.715	.715	.715

a. Dependent Variable: Strategy implementation

b. Predictors: (Constant), % Recognition

From the results in Table 6, the value of R-Square is 0.512. This implies that 51.2 % of variation on strategy implementation was explained by performance recognition. ANOVA results indicate that the model is statistically significant ($F = 24.103$, $p < 0.05$). The standardized coefficient shows that the effect of performance recognition on strategy implementation is positive and significant ($\beta = 0.715$, $t = 4.909$, $p < 0.05$). The data therefore supports the hypothesis that performance recognition has a positive effect on strategy implementation. The study findings are consistent with findings of a study conducted by Kobia and Mohammed (2006) which showed that appreciating employees for their good performance has a positive and significant impact on the overall performance of an organization.

4.5.4 Joint Effect of Performance Agreement, Evaluation and Recognition on Strategy Implementation

The study also sought to examine the joint effect of performance agreement, evaluation and recognition on strategy implementation. It was hypothesized (Hypothesis H4) that performance agreement, performance evaluation, and performance recognition jointly have a positive effect on strategy implementation. Multiple regression analysis was used to test the hypothesis. The results are as presented in Table 7.

Table 7: Regression results for joint effects of performance agreement, evaluation and performance recognition on strategy implementation

Model Summary						
Model	R	R Square ^b	Adjusted R Square	Std. Error of the Estimate		
1	.969 ^a	.938	.922	6.7164		
ANOVA ^{a,b}						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8188.773	3	2729.591	60.509	.000 ^c
	Residual	541.327	12	45.111		
	Total	8730.100 ^d	15			
Coefficients ^{a,b}						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	Performance agreement	.544	.212	.508	2.563	.025
	Performance Evaluation	.336	.209	.351	1.605	.134
	Performance Recognition	.137	.276	.137	.498	.628

a. Dependent Variable: Strategy implementation

b. Linear Regression through the Origin

c. Predictors: performance Recognition, Performance agreement, Performance Evaluation

d. This total sum of squares is not corrected for the constant because the constant is zero for regression through the origin.

As shown in Table 7, R-Square for the model is 0.938 indicating that 93.8% of the variation in strategy implementation is explained by the joint effect of performance agreement, performance evaluation and performance recognition. ANOVA results reveal that the model is statistically significant ($F = 60.509$, $p < 0.05$). The results therefore support the hypothesis that performance agreement, performance evaluation and performance recognition jointly have a significant effect on strategy implementation. The findings of the study concur with the results by Lugalía (2011) and Muraguri and Wagoki (2016) who found that performance contracting yields better results when all parties are well involved and implementation mechanisms are well laid out.

5. Conclusion

The aim of the study was to determine the effect of performance contracting aspects on strategy implementation. The study findings reveal that performance contracting aspects that is, performance agreement, performance evaluation and performance recognition singly influence strategy implementation. Further, the results reveal that the aspects of performance contracting jointly influence strategy implementation. Thus, the study concludes that performance contracting influences strategy implementation. Hence, performance contracting is an important tool that managers can use to enhance success of strategy implementation.

This study contributes to the understanding of the relationship between performance contracting aspects and strategy implementation. However, the study has limitations. This study adopted a cross-sectional survey. Such studies have limitations on providing causal linkages between variables. Thus, future research could adopt longitudinal research design to enhance understanding of the causal relationship between the aspects of performance contracting and strategy implementation. The study examined the causal relationship in public corporations in Kenya. The study could be replicated in other contexts. Such replication could further determine whether the results of this study can be generalized to other sectors and countries with different contextual conditions. This will enhance understanding of the relationship between performance contracting aspects and strategy implementation. The respondents of this study were executive officers and one respondent was used in each organization to collect data. To minimize the effect of single respondent bias, future research can use multiple respondents including executive officers and middle managers.

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