

**ROLE OF PERFORMANCE CONTRACTING IN
STRATEGY IMPLEMENTATION IN COMMERCIAL
STATE CORPORATIONS IN KENYA**

JAMES KIBERA MURIUKI

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**Role of Performance Contracting in Strategy Implementation in
Commercial State Corporations in Kenya**

James Kibera Muriuki

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DECLARATION

This thesis is my original work and has not been presented for a degree in any other University.

Signature Date

James Kibera Muriuki

This thesis has been submitted for examination with our approval as University Supervisors.

Signature Date

Prof. Mike Iravo, PhD

JKUAT, Kenya

Signature Date

Dr. Kabare Karanja, PhD

JKUAT, Kenya

DEDICATION

This work is dedicated to my parents, Mr. Gerald Ngatia, and Mrs. Charity Muriuki; my wife Lucy Mbogori; my children, Ian Kibera, Kyle Kibera, and Lyle Kibera; my siblings; Teresa Wanjiru, Gordon Ngatia, Elizabeth Nyawira, and Caroline Wangari; and my grandmother, Lucia Kibera.

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ABBREVIATIONS AND ACRONYMS

ANOVA	Analysis of Variance
CAFRAD	African Training and Research Centre in Administration for Development
CAPAM	Common Wealth Association of Public Administration and Management
ECA	Economic Commission for Africa
EP	Effort Performance
ERS	Economic Recovery Strategy
ERSWEC	Economic Recovery Strategy for Wealth and Empowerment Creation.
GAO	Government Accounting Office
GoK	Government of Kenya
GPRA	Government Performance and Results Act
HR	Human Resource
HRM	Human Resource Management
IBM	International Business Machines Corporation
ICT	Information and communications technology
IES	Institute of Employment Studies
IUCN	The International Union for Conservation of Nature

KMO	Kaiser-Meyer-Olkin
LOLF	Loi Organique Relative aux Lois de Finances
MDA	Ministries, Departments, and Agencies.
NPR	National Partnership for Re-inventing
OMB	Office of Management and Budget
PC	Performance Contracting
PCD	Performance Contracting Department
PO	Performance Outcome
PRSP	Poverty Reduction Strategy Paper
RBM	Results Based Management
RBV	Resource Based View
SCAC	State Corporations Advisory Committee
SMART	Specific Measurable, Attainable, realistic, Time bound
SME	Small and Medium Enterprise
SP	Strategic Plan
SPSS	Statistical Package for Social Sciences
SWOT	Strengths, Weaknesses, opportunities, and Threats.

US	United States
USA	United States of America
VRIN	Valuable, Rare, Inimitable, and Non-substitutable

DEFINITION OF TERMS

Commercial State Corporation: is an entities howsoever incorporated that is solely or majority owned by the government or its agents for commercial purposes. A commercial function is a function the dynamics of which are governed by a competitive profit-driven market and that can be performed commercially but also serves a strategic socio-economic purpose as from time to time defined by the President. State Corporations, therefore, include a. Commercial State Corporations; and b. Commercial Corporations with strategic functions that are defined through the national development planning process. These entities shall be incorporated and managed under the Companies Act (Report of the Presidential Task Force on Parastatal Reforms, 2013)

Performance Contract: is a freely negotiated performance agreement between the Government and respective Ministry, Department or Agency which clearly specifies the intentions, obligations, and responsibilities of the two contracting parties. It stipulates the results to be achieved by the contracted and the commitments of Government as the contracting party (Kobia & Mohammed, 2006).

Performance Monitoring and Reporting: Performance monitoring provide information about the results being achieved, and to provide information about the efficiency of resource use. Performance monitoring and reporting deal with how well the organization is achieving results (Monitoring and Reporting, Module 4, IUCN).

Performance Planning: is a formal process in organizations for discussing, identifying and planning the organizational as well as individual goals which an employee can or would achieve in coming appraisal or review cycle (Human Resource (HR) Dictionary).

Performance Target: is the desired level of performance for a performance indicator for a contract year (Performance Contracting Department, 2015)

Resource Allocation and Deployment: Resource allocation is the process of assigning and managing assets in a manner that supports an organization's strategic goals. It includes managing tangible assets to make the best use of softer assets such as human capital. It also involves balancing competing needs and priorities and determining the most effective course of action in order to maximize the effective use of limited resources and gain the best return on investment (www.searchio.techtarget.com).

State Corporation: is a body corporate established under an Act of parliament or other written law but not exempted by the State Corporation Act or by the President by notice in Kenya Gazette not to be a state corporation (State Corporation Act, Cap 446, Sec. 2).

ABSTRACT

The purpose of this study was to look at the role of performance contracting in strategy implementation in commercial state corporations in Kenya. Strategy development and execution is key in enhancing organizational competitiveness. Among the strategy implementation tools, performance contracting plays a key role in engaging organizational staff. Problems in performance contracting and strategy implementation in state corporations led the researcher to formulate a research problem which guided the research process. The results will be used to solve strategy implementation problems thus improving performance. The general objective of this study was to analyze the role of performance contracting in strategy implementation in commercial state corporations in Kenya. The study used descriptive research design. The strategy implementation (dependent) variable was measured by Resource allocation and deployment; and Performance Contracting (Independent) variables include Performance Target Setting, Performance Planning, and Performance Monitoring and Reporting. The study was based on the Resource-Based theory and the Goal Setting theory. The target population for this study was the 32 Commercial State Corporations in Kenya as listed in the State Corporations Advisory Committee (SCAC) website (2016). Primary data were collected using structured questionnaires. The data were analyzed using descriptive statistics; regression analysis was computed to determine the degree of association between performance contracting and strategy implementation. The study established that performance target setting has no significant influence on strategy implementation. Performance planning; performance monitoring and reporting; and, policy and regulations have a significant influence on strategy implementation. The study concluded that performance contracting has a positive role in strategy implementation in state corporations in Kenya. The study recommends that In performance planning: There should be consideration of organizational capabilities and competencies, ensure staff are trained on performance planning to enhance their capabilities and competencies, and develop standardized work plans when planning for performance as this assists in strategy implementation. In performance monitoring and reporting: State corporations should have an adequate performance measurement system for strategy implementation. Enhance automation of strategy implementation performance monitoring and reporting through performance contracting. Ensure strategy implementation monitoring and reporting is carried out in performance contracting and enhance measurement and analysis of utilization of strategy implementation resources in performance contracting. On government policies and regulations compliance: State corporations should have a mechanism of updating themselves on policies and regulations from the government that affects their operations and strategy implementation, analyze their effects and develop mitigation measures, including revising the strategic objectives.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

'Most leaders fail-not in the formation of strategy but in its implementation' (Edinger, 2012). According to Edinger (2012), if the strategy is to be implemented well, it should be cascaded throughout the organization and get to the practical and tactical components of people's jobs every day. Managers should be involved in this process and should translate the elements of the strategy for the organization to their own functional areas. Doing this allows them to develop and own the process of cascading the strategy and designing implementation plans with a high likelihood of execution. The government of Kenya has been using the performance contract to assist the public sector in implementing the national as well as the organizational strategies.

The reason why strategy implementation fails is that managers do not have practical models to guide their actions during implementation. Without adequate models, they try to implement strategies without a good understanding of the multiple factors that must be addressed, often simultaneously to make strategy work (Okumus, 2003). This is supported by Rumelt (2011) who noted that less 10% of well-formulated strategies are effectively executed and concluded that it is better to have a less excellent strategy which is fully implemented than to formulate an excellent strategy which is never or only partially executed. Cobbold (2010) in a study in the times 1000, 80% of directors interviewed said they had the right strategy but only 14% of them thought the strategies were well implemented.

Strategy implementation is the amplification and understanding of a new strategy within an organization (Mintzberg, 1994). Such an explanation involves the development of new structures, processes and other organizational alignments (Galbraith & Kazanjian, 1986). Implementation is a key stage of the strategy process, but one which has been

relatively neglected (Bantel & Osborn, 2001; Dobni & Luffman, 2003; Noble, 1999). Despite this, it is generally perceived as a highly significant determinant of performance (Mbaka & Mugambi, 2014). As Noble (1999) states, “well-formulated strategies only produce a superior performance for the firm when they are successfully implemented”.

There seems to be widespread agreement in the literature regarding the nature of strategic planning, which includes strategy implementation (Mbaka & Mugambi, 2014). It includes presentations of various models showing the organizational characteristics suggested as significant factors for effective strategy implementation (Guffy, 1992). It is also portrayed as a lively process by which companies identify future opportunities (Reid, 1989). Additionally, the existence of a strategy is an essential condition or precondition for strategy implementation. Implementation is focused by nature and by definition. It cannot be directionless. It is a process defined by its purpose – in this case, the realization of a strategy. Thus, to implement a strategy, there must be a strategy (Mbaka & Mugambi, 2014). The strategy may be more or less well-formed, more or less in the process of formation, or even emergent (Mintzberg, 1987). Unless it is suitably formed to represent a direction or goal, there is nothing to implement; and organizational members will be unable to work towards its realization. As a result, strategic intentions are inextricably linked with and enable the existence of, strategy implementation. According to Beaudan (2001) organizations that focus their energy on harvesting, the fluid relationship between strategy and implementation will create satisfied customers, employees, and greater profits.

To establish the role of performance contracting on strategy implementation the study adopted the variables Performance Target Setting, Performance planning, and Performance Monitoring and Reporting in performance contracting as discussed by Kobia and Mohamed (2006) in the Result Based Management model, the four variables are a measure of the important process steps in performance contracting. The Strategy implementation variable adopted in this study was resources allocation. The resource allocation variable have been identified to measure the extent to which a strategy is

being implemented by various researchers such as Kahuthu (2016); Kalali *et al.* (2011); Hrebiniak (2006); Allio (2005); Ibrahim *et al.* (2012); Beer and Eisenstat (2000).

1.1.1 Global and Africa Perspective

Performance contracting started in the 1970s in France. Since then it has been used by various countries all over the world particularly by developing countries. In Asia, it has been used in Bangladesh, China, India, Korea, Pakistan, and Sri Lanka. In Africa it has been used in Benin, Burundi, Cameroon, Cape Verde, Cote d'Ivoire, Gabon, Ghana, Guinea, Madagascar, Mali, Mauritania, Morocco, Niger, Senegal, Togo, Tunisia, and D.R. Congo. In Latin America, it has been used by Argentina, Brazil, Bolivia, Chile, Colombia, Mexico, Uruguay, and Venezuela. It has also been used in Malaysia, United Kingdom, United States of America, Canada, Denmark, and Finland.

According to Dooren, Bouckaert, and Halligan (2015), Performance measurement has played a critical role in reform initiatives. England witnessed an improvement in indicators by the end of the 1980s. The Next Steps agenda, Citizen's Charter, Financial Management Initiative among other reform initiatives led to the creation of performance indicator systems for most public services, central and local. League tables were created for hospitals, ambulance services, schools, health trusts, local authorities, amongst others. In general, Continental Europe has not used performance indicators with the same intensity as the Anglo-Saxon world. Yet, there are considerable variations between countries. In Germany, the New Steering Model stressed the importance of performance indicators (Naschold & Bogumil, 2000, as cited in Dooren *et al.*, 2015). However, the reforms were only applied in some city-states and big cities. In France, the Loi Organique Relative aux Lois de Finances (LOLF) introduced a form of performance budgeting (Calmette, 2006, as cited in Dooren *et al.*, 2015). In Sweden, where there is a highly decentralized public sector, performance measures largely played a role in the steering of agencies. In Norway, the Management by Objectives and Results system has been commonly adopted, although after a transformation and translation by the agencies (Laegreid *et al.*, 2008, as cited in Dooren *et al.*, 2015).

Performance contracts were implemented to improve performance to deliver quality and timely services to the citizens; improve productivity in order to maximize shareholders wealth; reduce or eliminate reliance on the exchequer; instill a sense of accountability and transparency in service delivery and the utilization of resources; give autonomy to government agencies without being subjected to the bureaucracies and unnecessary procedures. The results of performance contracting from the countries have been mixed with some experiencing improvements and others none due to unclear and conflicting objectives, and lack of autonomy and accountability (Kobia & Mohammed, 2006). According to Kobia and Mohammed (2006) for public enterprises to gain from performance contracting they should involve the citizens and allow them to manage the processes rather than use expatriates, they should also allocate adequate resources to the organization, select few realistic targets rather than too many objectives at once, and the governments should provide financial resources to the enterprises.

1.1.2 The Kenyan Perspective

Kenya attained independence in 1963. According to Ikiara *et al.* (2008) since then, the Government has been struggling with development challenges through numerous development plans, sessional papers, fiscal papers, and recovery papers. These include Sessional Paper No. 10 of 1965 on “African Socialism and its Application in Planning and Management”, Sessional Paper No. 1 of 1986 on “Economic Management for Renewed Growth”, Sessional Paper no. 1 of 1994 on “Recovery and Sustainable Development to the year 2010”, the Poverty Reduction Strategy Paper (PRSP) of 2002, and the Economic Recovery Strategy for Wealth and Employment Creation (ERSWEC) of 2003, among many other national and sectoral strategy documents.

The Government of Kenya adopted Performance Contracting (PC) in public service as a strategy for improving service delivery to Kenyans (Kobia & Mohamed, 2006), to enhance efficiency and effectiveness together with probity and integrity, and an effort to achieve the objectives and targets of Economic Recovery Strategy for Wealth and

Employment Creation (ERSWEC) 2003-2007 and to manage performance challenges in public service.

According to Kobia and Mohamed (2006) performance contracts were introduced to; Improve performance to deliver quality and timely services to the citizen, Improve productivity in order to maximize shareholders wealth, Reduce or Eliminate reliance on the exchequer, Instill a sense of accountability and transparency in service delivery and the utilization of resources, and to give autonomy to government agencies without being subjected to the bureaucracies and unnecessary procedures.

Although the performance contract is supposed to be developed by individual organizations borrowing from their strategic plans, it has its own set of objectives on which organizational objectives are added. One of which is the development of a strategic plan. Most of the state corporations and other government ministries and departments have been experiencing problems in aligning the objectives of the Kenya Vision 2030, the performance contract, and their strategic plans. Some have other performance management tools on top of the performance contract; this totally complicates management of the organizations and ensuring they focus on their core mandate. This is a unique situation experienced by organizations under government performance contracting in Kenya which has not been experienced and has not been researched before anywhere else in the world.

In the study by the Panel of experts on the review of performance contracting (2010), on May 6, 2010, the Government of Kenya appointed a Panel of experts to review the Performance Contracting and Evaluation in the public sector so as to make recommendations to the Government on how to improve the system. The panel noted that there is a disparity between performance management contracting and other performance management tools and instruments. They also noted that there is neither an adequate link between performance contracting and budgeting system nor a clear link of national priorities with the performance contracting. The panel also noted the need to improve the current performance contracting matrix as it does not clearly capture the

performance of the public service institutions. It was noted that there are too many matrices thus raising concern over the use of results for ranking and ignoring the fact that all the institutions have mandates to deliver and customers to serve as spelled out in the various Acts of Parliament. The panel also noted a difference between the results from the primary evaluation and the results finally announced, this is due to moderation of results.

According to the report on an evaluation of the performance of public agencies for the financial year 2010/2011 (2012); a total of 468 Government agencies signed performance contracts between July and December 2012. Which are; 46 Ministries and Accounting Departments, 178 State Corporations, 175 Local Authorities and 69 Tertiary Institutions in the Ministries of Education and Higher Education, Science and Technology. Two state corporations and two Local authorities did not submit their performance for evaluation. Six State Corporations did not sign performance contracts during the year under review.

The commercial state corporations are state enterprises expected to generate revenue or make a profit. State enterprises were established include the expectation that they were to earn a surplus to accomplish other societal goals, produce goods and services deemed necessary for development, engage in projects which require large capital outlay, are necessary for development but are unattractive to the private sector and to provide direction, regulation and support to the commercial enterprises and act as a consumers watchdog. The government of Kenya has encouraged the co-existence of private and public enterprises to enable it to achieve its key objectives as enshrined in the constitution at the independence of eradicating poverty, ignorance, and disease (Nderi, 2013).

According to Karanja (2004), whereas the private enterprise has entrepreneurial roots, public corporations are created by some higher controlling authority with multiple and competing interests. The purpose and objectives of the state enterprise are defined by that higher controlling authority who also provide the operating resources on which it

depends. In the past, most of these commercial state corporations have been heavily relying on state funding instead of generating the expected revenues. According to Nderi (2013), most of the commercial state corporations made losses, lacked accountability and transparency in service delivery and the utilization of resources.

Decision making in the public sector is a political process Karanja (2004). This makes attainment of simple objectives a time consuming and tedious process not worth devoting some level of resources. Challenges of strategy implementation abound due to the fact that managing the implementation and execution process is an operations-oriented activity which aims at making things happens to support core business activities in a strategy-supportive manner. It is easily the most demanding and time-consuming part of the strategic management process. The process of converting strategic plans into actions and results tests a manager's ability to direct organizational change, motivate people, build and strengthen company competencies and competitive capabilities. It also tests the ability to create and nurture a strategy-supportive work climate in executing the strategy proficiently together with initiatives, which are launched and managed from many organizational fronts. As a result of all these initiatives, many institutional and operational challenges are bound to be faced by any organization whether in the commercial or public sector (Thompson & Strickland, 2008).

The study was carried out in commercial state corporations in Kenya implementing the performance contract to analyze the role of performance contracting in strategy implementation. In Kenya state corporations are required to sign performance contracts and the performance contract requires them to have a strategic plan in place. This came as a result of the introduction of performance contracting in the year 2003 by the Government of Kenya, as a measure to increase Government efficiency and effectiveness in the delivery of services to Kenya citizens.

1.2 Statement of the Problem

It has been observed that the organizations focus heavily on the performance contract thereby neglecting many aspects of the strategic plan implementation. In most cases, they focus on the performance contract since they are required to periodically report to the performance contracting department in the Ministry of Devolution and Planning on the progress of the performance contract (GoK, 2010). They, therefore, disregard the implementation of many aspects of their strategic plan which is retrieved from the shelves at the time of periodical reviews. This makes employees lose focus and hence affect the organization's performance and overall implementation of the strategy. It brings about conflicting and misaligned goals and objectives demands on employees. In some cases, the performance targets of similar goals and objectives of performance contract and strategic plan do not tally. Roney (2004) observed that the most common reason for firms' failure is linked to wrong strategy implementation. During quarterly and annual performance reviews, it has been observed that there is a loss of focus amongst employees as they do not know which objectives to work with and they are required to deliver on both. It was also observed by the performance contracting department in the 2010/2011 performance contracting report that there is a visible mismatch between annual work planning of public agencies and performance contracting and that similar discrepancies are visible between annual organization reports and annual performance contract reports. According to the Panel of experts on the review of performance contracting, 2010, Performance contracting has raised dissatisfaction on the results as they do not relate to improved performance in terms of service delivery from the public. Ministries, Departments and Agencies have also on various occasions challenged the results of performance contracting. The dissatisfaction and public outcry led to the failure of release of the 2007 performance contracting results (GoK, 2012). The panel of experts on the review of performance contracting (2010) noted that there is no adequate linkage between performance contracting and the budgeting system, and no clear line of sight from performance contracting to the national priorities. The panel also noted the existence of too many matrices and ignoring

the mandate of the respective institutions as stipulated in various Acts of parliaments and legal notices, and their mandated service to customers. These problems have led to many of the state corporations facing cash flow problems, staff retention challenges, loss of revenue, and stagnation due to poor strategy implementation. Some of them face privatization risk. Therefore, there is a need to establish the role of performance contracting in strategy implementation in commercial state corporations in Kenya.

1.3 Objectives of the Study

The following were the objectives of the study.

1.3.1 General Objective

To analyze the role of performance contracting in strategy implementation in commercial state corporations in Kenya

1.3.2 Specific Objectives

1. To assess the role of performance target setting on strategy implementation in commercial state corporations in Kenya.
2. To evaluate the role of performance planning on strategy implementation in commercial state corporations in Kenya.
3. To investigate the role of performance monitoring and reporting on strategy implementation in commercial state corporations in Kenya.
4. To determine the moderating effect of policies and regulations compliance on the relationship between performance contracting and strategy implementation in commercial state corporations in Kenya.

1.4 Research Hypotheses

H₀₁ Performance target setting has no significant influence on strategy implementation in commercial state corporations in Kenya.

H₀₂ Performance planning has no significant influence on strategy implementation in commercial state corporations in Kenya.

H₀₃ Performance monitoring and reporting has no significant influence on strategy implementation in commercial state corporations in Kenya.

H₀₄ Policies and regulations compliance have no significant moderating influence on the relationship between performance contracting and strategy implementation in commercial state corporations in Kenya.

1.5 Significance of the Study

The results of the study will help in improving the implementation of state corporations strategic plans through the management and implementation of performance contracting in Kenya. The study was carried out due to the observed inconsistencies in the previous evaluation reports between the objectives of strategic plans, performance contracts, the institution's annual reports and work plans. Therefore, the study has recommended measures for enabling the state corporations to align their objectives as they develop their performance contracts and work plans.

The study is of great importance in policy formulation for guidance in strategic plan implementation through performance contracting process. The study has generated results which will enhance achievement of the Kenya Vision 2030 since it will ensure incorporation of the vision 2030 flagship projects implementation targets in the alignment of the objectives for the corporations. The findings of the study will also enhance improved service delivery to Kenya citizens since the mandate of the various organizations will be incorporated in the performance tool during alignment of the

various objectives for the organizations. The study has contributed to new knowledge on the role of performance contracting on strategic plans implementation and knowledge that will enhance effective implementation of state corporations' strategic plans using the performance contracting process.

1.6 Scope of the Study

The scope of the study was on the role of performance contracting in strategy implementation in commercial state corporations in Kenya. The study covered the thirty-two (32) commercial state corporations in Kenya, as of July 2016. The study was conducted from August 2016 to August 2017. The commercial state corporations in Kenya were the focus of the study because the implementation of the strategy is of greater importance to them than the other state corporations tasked with the state mandate of service delivery to citizens. Commercial state corporations are required to generate revenue for the government in addition to providing services to Kenya citizens.

1.7 Limitations of the Study

The study was limited to only commercial state corporations in Kenya. This may limit the application of findings to the other public agencies implementing performance contracting in Kenya, such as the non-commercial state corporations and government ministries, departments and agencies. The limitation can be solved by undertaking a similar study in the non-commercial state corporations, government ministries, departments, and agencies. However, the recommendations can be applied as guidelines to performance contracting process in all the government agencies with a strategic plan and implementing performance contracting.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter consists of the literature review as derived from research works by other researchers obtained from manuals, journals, magazines, and books. The researcher seeks to explain the theories related to this study and their relevance and then conceptualize the problem to identify the variables and explain them and then finally operationalization is done to show the parameters to measure in the study.

2.2 Theoretical Review

This section provides a discussion of the theories and models that guide this study and application in performance contracting and strategy implementation. The theories include Goal Setting theory and Resource Based theory. The models include; Result Based Performance Management and Mckinseys 7s model.

2.2.1 Goal Setting Theory

From the performance contracting literature, agency theory has been the underlying theory adopted by many authors to explain the application of Performance Contract and the evaluation Performance Contract in general (Simpson, 2013). The goal setting theory was advanced by Locke and Latham in the 1990s (Latham, Brcic, & Steinhauer, 2017). According to Latham *et al.* (2017), the theory emphasizes the importance of the goal to an individual so that to ensure goal commitment. Moreover, many studies highlight the importance of improving performance by the standardization and institutionalization of goal formulation and performance target setting and evaluation.

The goal setting theory postulates that there is a relationship between goals and performance; and that relationship is explained by what the proponents call

“Mechanisms or Mediators”, and “Moderators” (Locke & Latham, 1990, 2002, 2006; Latham & Locke, 2007). Specifically, the theory is concerned with “the effectiveness of specific, difficult goals; the relationship of goals to affect; the mediators of goal effects; the relation of goals to self-efficacy; the moderators of goal effects; and the generality of goal effects across people, tasks, countries, time spans, experimental designs, goal sources (i.e., self-set, set jointly with others, or assigned), and dependent variables” (Locke & Latham, 2006).

The basis of this is the inductive conclusion that individuals with challenging but specific and explicit goals tend to achieve better results than those with equivocal goals, since the former direct attention, effort, and action, and even search for requisite task knowledge, skills and experiences to maximize performance (Locke & Latham, 1990, 2002, 2006; Latham & Locke, 2007). They explain that quality goals therefore direct attention and effort; encourage endurance and persistence as well as make the identification of innovative ways of achieving goals crucial.

A clear, specific, and “hard” goal does not necessarily result in desirable organizational performance, but the critical issues are: commitment to the targets, complexity of the task, how the targets are framed and developed (as a team or individually), and the availability and use of feedback (Heslin *et al.*, 2008). This means that a goal must not only be specific but must also be challenging enough to encourage persistence and drive optimum effort, since easy or vague goals generally will not lead to higher levels of effort.

In addition, proponents posit goal moderators and mediators. They explain that these factors may improve or inhibit the effectiveness of even quality goals and targets. They include the ability, knowledge, and skills of participants in the performance processes, complexity of task, quality of feedback provided, and commitment. Among these factors, the commitment has been described as the *sine qua non* to ensuring the goal attainment (Latham *et al.*, 2008). According to Simpson (2013), in other words, commitment from all who matter: an “all hands on deck” approach is an essential

condition for optimizing any goal including achieving the best from performance contracts.

Commitment according to the literature on goal setting theory can be achieved through persuasive and inspiring communications from leaders; allowing subordinates to participate in goal formulation; equipping those who implement the goals via training, and the provision of incentives (Bandura, 1997; Bass, 1985; White & Locke, 2000). Empirically, the goal setting theory has been employed in several studies at individual, group and organizational levels to explain and predict the association between goal formulation, implementation, and performance (Baum *et al.*, 2001; Baum & Locke, 2004; Locke & Latham, 2006). Within the public sector setting, however, relatively few studies have employed this theory (Latham *et al.*, 2008). Similarly, in the broad area of performance management in public sector organizations the number of studies are growing steadily with evidence from developed countries (Cavalluzzo & Ittner, 2004; Chun & Rainey, 2005a, b; Hyndman & Eden, 2001; Ittner & Larcker, 2001; Rangan, 2004; Verbeeten, 2008).

Studies conducted in the Netherlands indicated that clearly specifying the goals is essential to preventing the dispersion of organizational energy, reducing and eliminating ambiguity and confusion about objectives, and thus ensures coherence and focus in pursuit of goals (Kaplan, 2001; Rangan, 2004; Verbeeten, 2008). These scholars established that the definition of clear and measurable goals has a positive relationship with both quantitative and qualitative performance indicators (Simpson, 2013). CEOs of governmental agencies stated that a focus on mission, objectives, targets and performance measures improves the performance of their agencies (Hyndman & Eden, 2001). According to Cavalluzzo and Ittner (2004), also in the US, responses from interviews showed that the performance of governmental entities did not improve in situations where the ambiguity of objectives was high.

Apart from the quality of goals, other key elements necessary for successful performance management and evaluation system: commitment from leadership; an

environment and culture that reward improved performance; active participation by main stakeholders in the process; regular monitoring, feedback and reporting on performance; and linking the performance management to existing structures and organisational strategies (Fryer *et al.*, 2009).

Goal setting theory assumes that goals affect performance through four mediating mechanisms; effort, persistence, direction, and task strategies (Locke & Latham, 1990). According to Wall and Jackson (1995), a performance regulation perspective suggests that an improvement of the action process itself improves performance. For example, individuals should be encouraged to set long-range goals and engage in planning, feedback seeking, and feedback processing. According to Neubert (1998), a combination of goal setting intervention with a feedback intervention results in better performance than a goal setting intervention alone.

The goal setting theory is important in this study since successful strategy implementation requires operationalization of the strategy by setting short term and medium-term goals. Implementation of performance contracts is supposed to assist the organizations in setting annual goals for strategy implementation.

2.2.2 Resource-Based Theory

The core of the resource-based theory of the firm lies in a fundamental heterogeneity in the production processes of firms. The theory was advanced by Penrose (1959), in the field of economics (Hitt, Xu, and Carnes, 2016). Given certain inputs, each firm will apply these inputs in a different way, resulting in different outputs or products. As a consequence, sustained competitive advantage will result for those firms whose production process proves to be most efficient and whose outputs best meet demand. Inputs are usually divided into three categories: physical resources, organizational resources and human resources (Koch & Kok, 1999).

The resource-based theory stems from the principle that the source of organizational competitive advantage depends on the unique resources and capabilities that a firm possesses (Steinthorson & Soderholm, 2002) and not mainly their positioning in the external environment or simply evaluating environmental opportunities and threats in conducting business. Before the emergence of Resource-Based View (RBV), the importance of resources to a firm's competitive growth was firstly recognized by Penrose (1959). She contended that a firm consists of a collection of productive resources and its growth depend on the manner in which its resources are deployed. Following the early work in the emergence of RBV (Teece, 2007; Wernerfelt, 1984), Barney (1991) formalized a comprehensive theoretical framework from the resources based perspective. According to Barney (1991), firms can be conceptualized as bundles of resources (and capabilities) that are heterogeneously distributed among firms and are imperfectly mobile. The differences in resource endowments across firms over time thereby allow for a resource-based competitive advantage.

The fundamental suggestion for organizational actions from this perspective is that firms select strategies to generate rents based upon their resource, capabilities and a fit with environment opportunities (Grant 1991; Hunt & Morgan, 2005; Mahoney, 1995). 'For the firm, resources and products are two sides of the same coin' indicates that firms can earn above-normal returns by identifying and acquiring resources that are critical to developing market-demanded products (Wernerfelt, 1984). Therefore, firms seek to acquire and develop unique sets of resources and capabilities as a means to gain a better competitive position in the market.

Due to the difficulties in measuring competitive advantage (Ketchen *et al.*, 2007), most studies that have empirically linked strategic resources and firm performance use the term competitive advantage as synonymous with firm performance (Crook *et al.*, 2008). Competitive advantage is generally used to describe the relative performance of rivals in a given market environment' (Peteraf & Barney, 2003). Thus, the assumption is if

strategic resources are related to superior performance, then a competitive advantage must exist.

The RBV emphasizes the performance implication of strategic resources that are available to the firm (Amit & Schoemaker 1993; Hunt & Morgan, 2005; Peteraf, 1993). However, not all resources are strategically important for competitive advantage (Barney, 1991). The VRIN attributes (valuable, rare, inimitable, and non-substitutable) of strategic resources proposed Barney (1991) are fundamental and prominent. The resources must be valuable to enable a firm to conceive or implement strategies that improve its effectiveness and efficiency.

If resources are rare, the firm can implement a unique value-creating strategy among its current and potential competitors. Furthermore, the resources must be difficult to replicate, imitate, or substitute for competitors to sustain the advantages gained in the value-creating strategies. Lastly, imperfect mobility refers to the non-tradability and barriers to moving certain resources from one firm to another, further enhancing the sustainability of these advantages (Barney, 1991; Mahoney, 1995). Similar attributes of strategic resources can be found in Amit and Schoemaker (1993), Grant (1991); Schoemaker and Amit (1994) studies.

The concept of causal ambiguity or the lack of transparency of organizational resources that are significant for producing competitive advantage was introduced by Lippman and Rumelt (2003). Causal ambiguity makes the connection between resources and competitive advantage less clear, and thus effectively constrains the ability of competitors to imitate and/or to employ substitutes. The tacitness, complexity, and specificity of resources generate causal ambiguity (Dierickx & Cool, 1989). In conclusion, the key to inhibit competitors' ability to obtain or duplicate the competitive advantage exists in the characteristics of organizational resources, namely valuable, rare, imperfectly imitable and causal ambiguous.

The RBV has emerged as one of the most widely accepted theoretical perspectives and a large number of studies adopting RBV has rapidly diffused throughout the strategy literature (Crook *et al.*, 2008; Priem & Butler, 2001). Researchers have begun to analyze the cumulative results for validating the applicability of RBV. Perhaps the three most prominent assessments are Barney and Arikan (2001), Newbert (2007) and Crook *et al.* (2008). Barney and Arikan (2001) assessed the studies adopting RBV using a qualitative method and concluded that the overall results are consistent with resource-based expectations.

By calculating the percentage of significance tests supporting the notion that strategic resources shape performance, Newbert (2007) has received only modest support overall (Jiang, 2014). This approach has some important limitations (Crook *et al.*, 2008), including not considering statistical artifacts and a significant level of the supporting effects. To overcome these limitations, Crook *et al.* (2008) used meta-analysis to study 125 RBV-related research and found RBV's empirical base offers strong support for the assertion that firm performance is enhanced to the extent that they possess strategic resources.

The resource-based theory is important in this study since successful strategy implementation requires the provision of resources. Implementation of performance contracts is supposed to provide an avenue for the provision of the resources required for strategy implementation.

2.2.3 Mckinsey 7s Model

According to Mbaka and Mugambi (2014), the McKinsey 7S model of strategy implementation summarizes by stating that managers need to take account seven factors to be sure of successful implementation of a strategy. These are the 7s namely strategy, structure, systems, style, staff, superordinate goals, and skills. A strategy is a set of actions that you start with and must maintain. Structure is the way people and tasks/work are organized, systems are the processes and information flows that link the organization

together, style is the way managers behave, staff is the way an organization develops managers (i.e both current and future), superordinate goals are the Long-term vision, and all that values stuff, that shapes the destiny of the organization while skills are the dominant attributes or capabilities that exist in the organization. All these are all interdependent, so if one fails to pay proper attention to one of them, it can bring the others crashing down. The relative importance of each factor varies over time. The Framework is a useful way of checking that all bases have been covered.

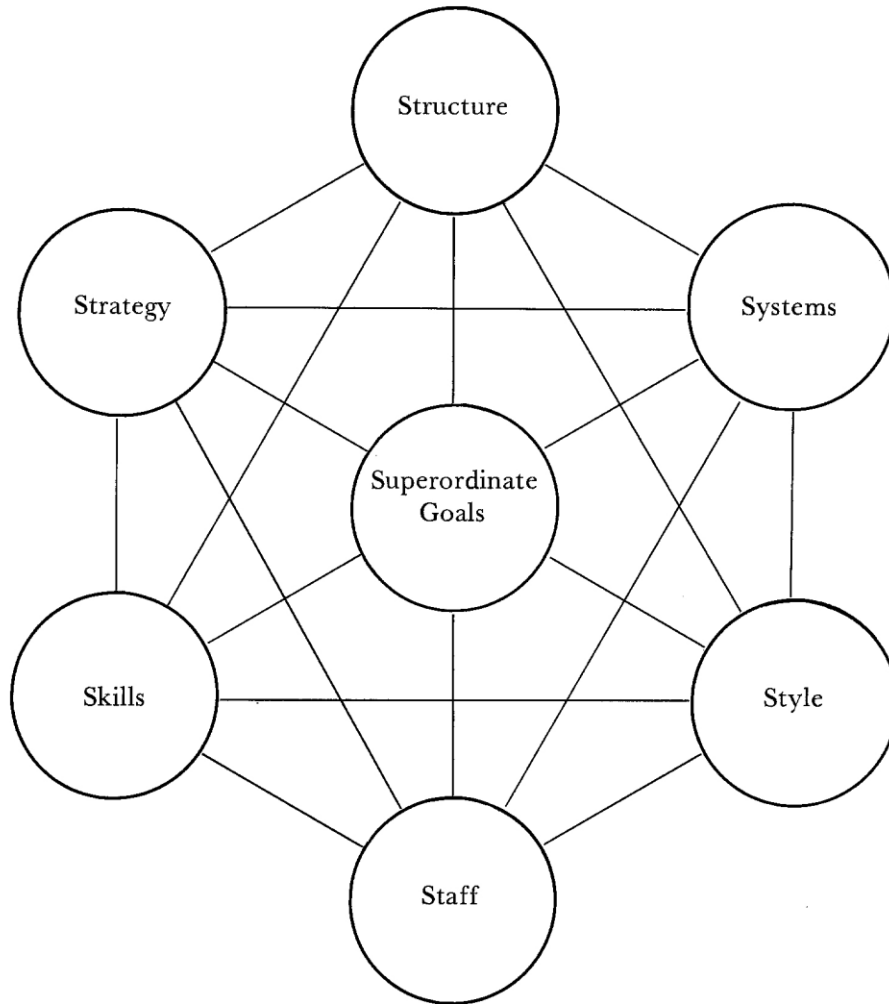


Figure 2.1: McKinsey 7s Model

Source: Waterman, Peters, and Phillips (1980, p. 18).

According to Manage (2007) the McKinsey 7S model as a model of organizational effectiveness used in organizations to analyze the environment to investigate if it is achieving its intended objectives. The McKinsey 7S model is a holistic approach to company organization, which collectively determines how the company will operate (Karami, 2005). According to the model, managers, need to take account of seven basic factors to be sure of successful implementation of a strategy (Maru, 2015). According to Peters and Waterman (1982), these include strategy, structure, systems, style, staff, shared values, and skills. These factors are all interdependent, thus failing to pay proper attention to one marks the beginning of failure.

The 7-S model posits that organizations are successful when they achieve an integrated harmony of all these factors (Barney, 1991). The hard components (strategy, structure, and systems) are normally feasible and easy to identify in an organization as they are normally well documented and seen in the form of tangible objects or reports such as strategy statements, corporate plans, organizational charts, and other documents. According to Dunphy and Stace (1988), the remaining four Ss (staff, skills, shared values, and style) are more difficult to comprehend.

The strategy is the plan of action an organization prepares in response to changes in its external environment. The strategy is differentiated by tactics or operational actions by its nature of being premeditated, well thought through and often practically rehearsed (Kaplan, 2005). It deals with essentially three questions, where the organization is at this moment in time, where the organization wants to be in a particular length of time and how to get there. Thus, a strategy is designed to transform the firm from the present position to the new position described by objectives, subject to constraints of the capabilities or the potential (Kaplan, 2005).

Structure refers to the way in which tasks and people are specialized and divided, and authority is distributed; how activities and reporting relationships are grouped; the mechanisms by which activities in the organization are coordinated (Kaplan, 2005). According to Peters and Waterman (1982), organizations are structured in a variety of

ways, dependent on their objectives and culture. The structure of the company often dictates the way it operates and performs.

According to Manage (2007), traditionally, businesses have been structured in a hierarchical way with several divisions and departments, each responsible for a specific task. Although this is still the most widely used organizational structure, the recent trend is increasingly towards a flat structure where the work is done in teams of specialists rather than fixed departments. The idea is to make the organization more flexible and devolve the power to employees by eliminating the middle management layers.

Systems refer to the formal and informal procedures used to manage the organization, including management control systems, performance measurement, and reward systems, planning, budgeting and resource allocation systems, and management information systems (Kaplan, 2005). Every organization has some systems or internal processes to support and implement the strategy and run day-to-day affairs. These processes are normally strictly followed and are designed to achieve maximum effectiveness (Maru, 2015). Traditionally, organizations have been following a bureaucratic-style process model where most decisions are taken at the higher management level.

Increasingly, organizations are simplifying and modernizing their processes by innovation and use of new organizational structure to make the decision making process quicker. Special emphasis is on the customers with the intention to make the processes user-friendly (Manage, 2007). This study focuses on the system aspect of the 7s model. This is where performance contracting influences strategy implementation.

Staff refers to the people, their competencies; how the organization recruits, selects, trains, manages the careers and promotes them (Kaplan, 2005). Organizations are made up of humans and it's the people who make the real difference to the success of the organization in the increasingly knowledge-based society. The importance of human resources has thus got the central position in the strategy of the organization. All leading organizations such as IBM, Microsoft, and Cisco put extraordinary emphasis on hiring

the best staff, providing them with rigorous training and mentoring support, and pushing them to achieve professional excellence (Karami, 2005). It is also important for the organization to instill confidence among the employees about their future career growth.

Skills refer to the distinctive competencies; what it does best along dimensions such as people, management practices, processes, systems, and customer relationships. Style refers to the leadership style of managers; how they spend their time; what they focus attention on; how they make decisions; also the organizational culture, that is, the dominant values and beliefs, the norms, the conscious and unconscious symbolic acts taken by leaders (Kaplan, 2005).

All organizations have their own distinct culture and management style. It includes the dominant values, beliefs, and norms which develop over time and become relatively enduring features of the organizational life. It also entails the way managers interact with the employees and the way they spend their time (Maru, 2015). According to Dunphy and Stace (1988), businesses have traditionally been influenced by the military style of management with strict adherence to the upper management and procedure expected from the lower-rank employees. However, there have been extensive efforts to change the culture to a more open, innovative and friendly environment with fewer hierarchies and smaller chains of command.

According to Kaplan (2005), shared values are the core or fundamental set of values that are widely shared in the organization and serve as guiding principles of what is important; vision, mission, and values statements that provide a broad sense of purpose for all employees. All members of the organization share some common fundamental ideas or guiding concepts around which the business is built. This may be to make money or to achieve excellence in a particular field. These values and common goals keep the employees working towards a common destination as a coherent team and are important to keep the team spirit alive. As noted by Peters and Waterman (1982), the organizations with weak values and common goals often find their employees following

their own personal goals that may be different or even in conflict with those of the organization or their fellow colleagues.

2.2.4 Results Based Performance Management Model

According to Kobia and Mohamed (2006) performance contracting is based on Results Based Management (RBM) to ensure that the public sector is transformed into being more focused and responsive to the needs of those it serves. The result intended is the public sector to direct its energies towards delivering targeted results for Kenyans and utilizing resources more productively. The quality and productivity of expenditures and investment are to be improved to ensure cost-effectiveness and value-for-money. Results Based Management is about institutional as well as individual performance, both in quality and quantity.

The key elements of RBM are; One, Performance target setting, the process of setting performance targets for ministries/departments, groups or individuals in carrying out specific work assignments. Two, Performance planning, the process of establishing a shared understanding of what is to be achieved, and how it is to be achieved and managing resources to ensure successful implementation. Three, Performance monitoring and reporting and, lastly Performance appraisal, the process of evaluating the organization, group or individual performance against predetermined targets. The framework for managing for results is at three levels namely: National, organizational (ministries and institutions) and individual. Embedded in the RBM framework are two key components to ensure its success, a performance management information system and a strong enforcement mechanism. The framework is a key part of the government's commitment to improving the performance of public service delivery and is based on agreed national principals and values (Kobia & Mohamed, 2006).

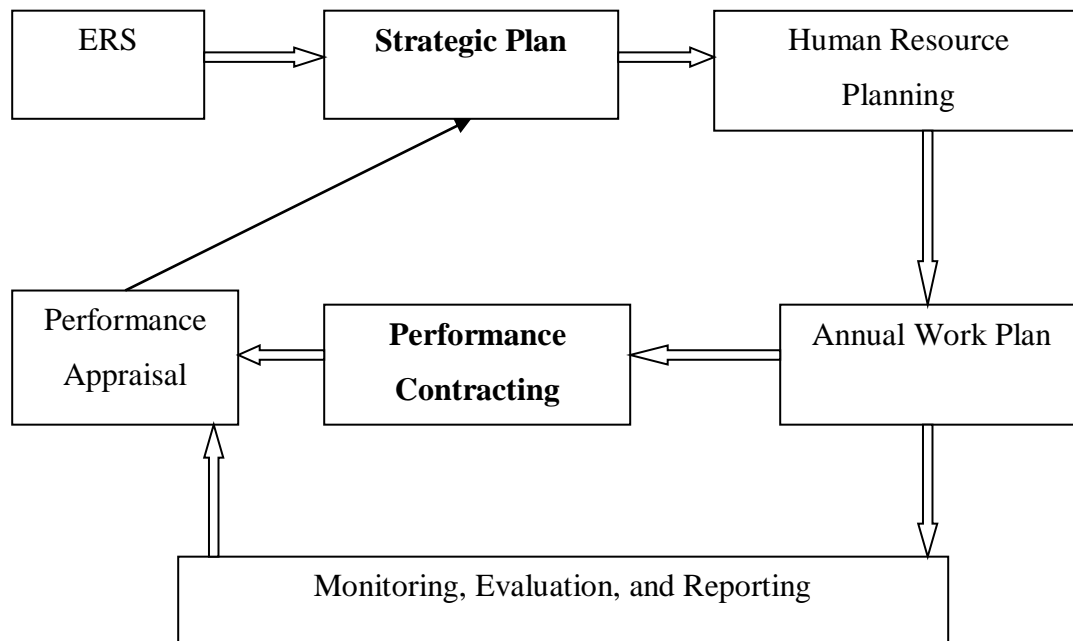


Figure 2.2: Result Based Performance Management Cycle Framework

Source: United Nations Development Group (2012, p.2)

Performance Contracting was first introduced in the management of state corporations in 1989, through a Parastatal Reform Strategy Paper approved by cabinet in 1991. It was part of the following policies that were recommended to streamline and improve the performance of State Corporations: Divestiture or Liquidation of non-strategic Parastatals, Contracting out Commercial activities to the private sector, Permitting private sector competition for existing state monopolies, and Improvements in the enabling environment of all strategic parastatals including removal of potentially conflicting objectives. Performance Contracts, where applicable were to be used to make transparent the cost of social services and to compensate the parastatals for their net costs (Kobia & Mohamed, 2006).

The first Performance Contracting was rolled out in two parastatals, Kenya Railways Corporation, and the National Cereals and Produce Board. Kenya Railways signed PC's in April 1989 and National Cereals and Produce Board signed in November 1990. The performance contracts of the two parastatals failed due to; Lack of Political goodwill to drive the process which was perceived as donor-driven, the performance contracts lacked a performance incentive system, and there was no provision for the impact of external factors such as changes in Government of Kenya policy, inflation, exchange rate fluctuations that would have made evaluation fair (Kobia & Mohamed, 2006).

Performance contracting was re-introduced in Kenya in the year 2003, in the Economic Recovery Strategy for wealth and Employment Creation (ERSWEC). Sixteen State Corporations representing diverse sectors and with Strategic plans signed their performance contracts by December 2004. Following the success in implementing performance contracts in state corporations, the government extended the process to Ministries and government departments. In the year 2005, Government of Kenya introduced performance contracting to 175 Local Authorities.

According to the results of National Customer Satisfaction Survey (2009) performance contracting has refocused Ministries, Departments, and Agencies on realizing their core mandates; it has also improved the performance of the public service particularly through the introduction of service charters. It has also led to improvements in transparency and accountability in service delivery in all public agencies which are under performance contracting.

The panel of experts on review the Performance Contracting (2010) selected to review and evaluate performance contracting in the public sector so as to make recommendations to the Government on how to improve the system noted that there are a disparity between performance management contracting and other performance management tools and instruments. They also noted that there is neither an adequate link between performance contracting and budgeting system nor a clear link of national priorities with the performance contracting.

The panel also noted the need to improve the current performance contracting matrix as it does not clearly capture the performance of the public service institutions. It was noted that there are too many matrices thus raising concern over the use of results for ranking and ignoring the fact that all the institutions have mandates to deliver and customers to serve as spelled out in the various Acts of Parliament. The panel also noted a difference between the results from the primary evaluation and the results finally announced due to the moderation of results.

According to Mhone (2003), public sector represented by the executive and its bureaucracy at the federal, provincial, national and local levels together with various statutory and parastatal bodies constitutes the key apparatus for the execution of the functions of the state. Up to the 1970s, Western capitalist nations of Europe and the USA and in the developing countries of Africa, Asia, and Latin America, expanded their activities in the quest to eradicate poverty and to develop their economies.

In others, the state became a direct investor and provider, either because the private sector was not developed or was not willing to invest in activities that were considered critical by the state. Yet in other countries, the state expanded its activities in emulation of the socialist ideology pursued by the Soviet Union during the communist period. Private profit was considered immoral and private enterprise was seen as an instrument of exploitation and creation of disparities between the rich and the poor. Greater reliance on the public sector was also needed to check the concentration of wealth in private hands, end exploitation, and ensure fairer allocation and distribution of scarce resources for development purposes (CAPAM, 1996; Commonwealth Secretariat, 2002).

Large-scale nationalization of indigenous and foreign private enterprises was undertaken as it was considered essential for effective development planning and the building of a socialist society. The state and the public sector continued to expand, not only to develop infrastructure and provide public utilities such as water, electricity, housing, and telecommunications, but also in the operation of industries, agriculture, banking, marketing and various commercial activities. The growth of private enterprise remained

limited (Balogun, 2003; ECA, 2004). Increases in governmental activities led to a bloated public sector, and it became clear that the state was taking on far too many activities. However, the continued poverty and economic crises in developing countries led to a realization that such a dismal state of affairs was largely related to poor public policies, which produced a large public sector, widespread nationalization and excessive controls over the economy (Dzimbiri, 2008). The state and its public sector undertakings had expanded beyond their capacity. Mismanagement, nepotism, political patronage, large and rigid bureaucracy, and widespread corruption became the features of public administration machinery (Turner & Hulme, 1997).

From the 1980s onwards, the state started rolling back in both developed and developing countries for various reasons, and the emphasis shifted from the state and the public sector to the private sector. Donor countries and agencies recommended reforms to developing countries in the form of Structural Adjustment Programs, which included a wide range of economic, political and administrative reforms. Economic reforms emphasized the need for liberalization of the economy by reducing controls, denationalization, privatization, private sector orientation and reliance on market forces. Political reforms, which included democratization, decentralization, increased people's participation and public accountability, had to accompany the economic reforms. In addition, administrative reforms were advocated. These included de-bureaucratization, downsizing of the public service, an introduction of strong measures for combating corruption and enhancing productivity (Turner & Hulme 1997; Hughes, 2003; ECA, 2004).

One of the main thrusts of the reforms was to reduce the direct involvement of the state in economic activities, enhance the role of the private sector, create an enabling environment for the growth of the private sector and develop public-private sector partnership (Sharma, 2006). According to Mhone (2003), the stabilization and structural adjustment programs consisted of the need to promote procedural rationality in the operation of the public sector and the need to realize instrumental rationality in terms of

economic, social and political outcomes. Instrumental rationality was based on views that demonstrated the superiority of market forces in the efficient allocation of resources, in order to justify the need to roll back and deregulate a number of controlled activities. Procedural rationality, on the other hand, relates to attempts to apply principles applicable to the private sector as a basis for enhancing the efficiency and effectiveness of public sector institutions.

Public sector reform initiatives in Commonwealth countries to 2002 included decentralization, commercialization, privatization, benchmarking, organizational methods, the fight against corruption, good governance, accountability, public financial management reform programs, public sector incomes policy and administration, functional reviews, job evaluation and salary review, training, information technology, one-stop-shops, codes of ethics for public officers, strengthening management capacity, service delivery improvement, ICT, computerization of human resources information, performance management systems, and restructuring ministries and provinces (Ayeni, 2002).

2.3 Conceptual Framework

Several types of conceptual frameworks for the field of public administration were identified by Shields and Tajalli (2006). The frameworks are linked to particular research purposes. As discussed by Kobia and Mohamed (2006) in the Result Based Management model, the performance contracting independent variables adopted in this study are; Performance Target Setting, Performance planning, and Performance Monitoring and Reporting. The Strategy implementation dependent variable adopted in this study is resources allocation. The resource allocation variable have been identified to measure the extent to which a strategy is being implemented by various researchers such as Kahuthu (2016), Kalali *et al.* (2011), Hrebiniak (2006), Allio (2005), Ibrahim *et al.* (2012); Beer and Eisenstat (2000).

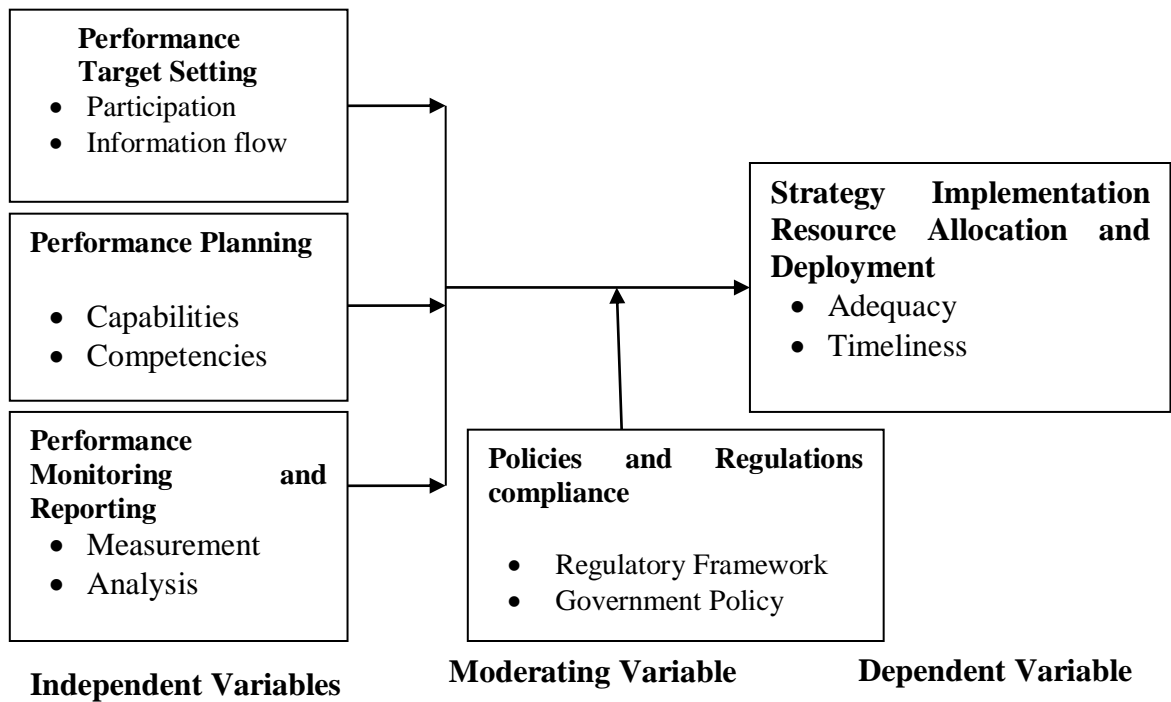


Figure 2.3: Conceptual Framework

2.4 Empirical Review of Literature

This section reviews empirical literature relating to the variables in the conceptual framework and the empirical literature on how the independent variable related to the dependent variable.

2.4.1 Performance Contracting and Strategy Implementation

According to Gakure *et al.* (2013) performance contracting is a summation of various bodies of knowledge applied together with an intention of improving organizational performance. According to Muthaura (2007), performance contracting is both a philosophy and a tool for coordinating employees towards the achievement of results.

Gakure *et al.* (2013) indicated that performance contracting was premised to lead to an increase in effectiveness of performance.

Performance contracting allows public agencies to contract for results rather than contract for services. While there is no universally accepted definition of performance contracting, Martin (2004) puts forth a general definition: “A performance contract is one that focuses on the outputs, quality, and outcomes of service provision and may tie at least a portion of a contractor’s payment as well as any contract extension or renewal to their achievement.”

A report by FCS Group (2005) found that performance contracting has been thought to, encourage the public sector to identify priority areas to invest resources and maximize client outcomes; encourage providers to be innovative and efficient in service delivery; encourage providers to control costs; encourage contractors and government to work together to deliver the best services to clients; set groundwork for program evaluation and monitoring by focusing work statements on outcomes; and lastly require less monitoring by minimizing reporting requirements and encourages more meaningful monitoring.

Performance contracting is a vital element of the new public management which forms part of performance management, (Mutinda, 2016). The debate in the public sector has been more complex than just increasing the effectiveness of strategic management systems and decreasing the gap between strategic implementation and annual planning (Mbua & Sarisar, 2013). According to Greiling (2006), the main concern has been to improve accountability and increase internal efficiency and effectiveness. Performance contracting is seen as a tool for improving public budgeting, promoting a better reporting system and modernizing public management while enhancing efficiency in resource use and effectiveness in service delivery.

2.4.2 Performance Target Setting and Strategy Implementation

The majority of literature concerning the real-world application of target setting is management based, where targets are viewed as a managerial tool, to assist in performance management at an organizational level (Marlow, 2005). In organizations, target-setting initiatives rarely exist in isolation. The target setting approach is more typically integrated with, or at least linked to, wider organizational systems.

Targets should more accurately be considered as just one element within a comprehensive and (ideally) complementary performance management framework (Financial Services Authority, 2002; National Audit Office, 2001; Audit Commission, 1999). Effective performance management should take a holistic and cyclical perspective, which aims to continuously improve organizational performance, by proactively monitoring performance and applying continuous learning principles. There are a number of approaches to performance measurement that adhere to the management philosophy of continuous improvement, the most commonly used of which are 'benchmarking' and the 'balanced scorecard' (Central Computer and Telecommunications Agency, 1999).

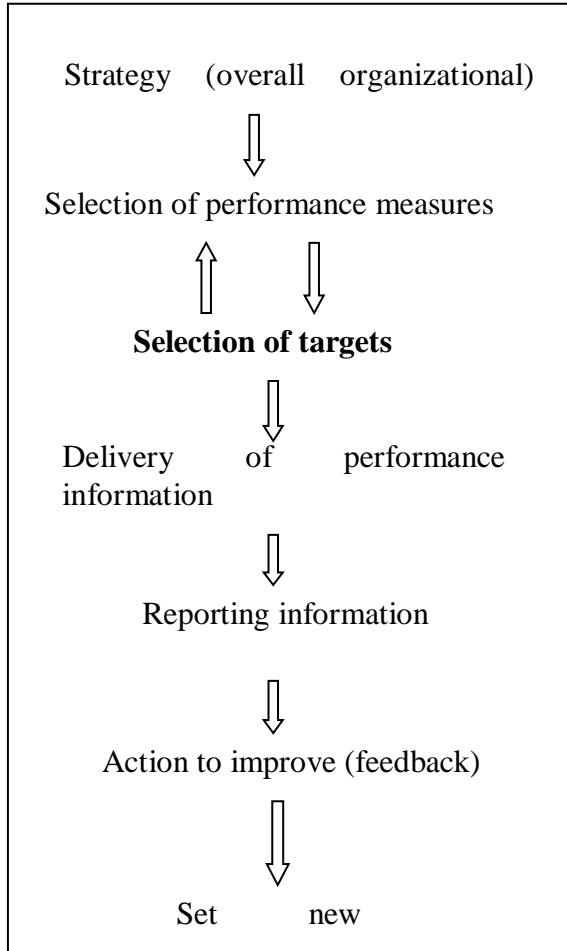


Figure 2.4: A Generic Performance Management Framework

Source: Marlow (2005, p.10)

A vital part of performance management relates to evaluation and appraisal. This measurement process lies at the heart of effective performance management systems and defines performance levels with respect to a particular target setting initiative, providing criteria for target attainment and the success and effectiveness of the scheme (McDonald *et al.*, 1995). The knowledge of whether targets have been achieved is crucial to the success of any target setting initiative. The process of continual review provides a

feedback mechanism that allows the evaluation to lead to improved performance. Feedback gained from the review can also help to present the opportunity to modify targets to reflect new insights and may highlight issues for improvement (Hale & Whitlam, 1998; Portelli *et al.*, 1997). According to Marlow (2005), providing the option to refine targets can help to encourage target ownership and subsequent commitment. Many organizations that set performance targets fail to effectively monitor whether they are achieved, thus may risk defeating the object of setting them.

Setting unmonitored or un-measurable targets is likely to be counterproductive, as the lack of available information obtained through the review process will limit the ability to plan improvements. Furthermore, there is a risk that organizations will incorrectly assume that targets are being met, while actual stakeholders experience rather different circumstances. A real threat of disenchantment and failure exists for all managers who are not immersed in the target review process (Marlow, 2005).

For performance evaluation to be relevant and informative, appropriate measures or indicators are required to provide data to assess whether targets are being achieved and if they are having the intended positive effect on individual and organizational performance. As stated earlier, one of the key features of an effective target is that its effects are measurable in a meaningful way. Therefore, the selection of performance indicators that allow progress against a particular performance target to be monitored is a critical and often overlooked activity in performance management. Although performance indicators are widely used throughout all employment sectors, important differences are said, by some, to exist between those used by public and private sector organizations. Most commentators consider that it is the multidimensional nature of organizational targets that most obviously distinguishes public sector enterprises from their private sector counterparts (Smith, 1995).

Financial output indicators (such as return on capital, cash flow or project profitability) have dominated target setting in the private sector because the unifying common profit/output objective makes such measures into widely applicable and comparable

lowest common denominators. As such, profit-making private sector companies have targets that tend to be more easily tested in terms of output. Wealth creation is a less significant concern in the public sector where greater attention is instead placed on outcomes, which are the impact, or consequence of the organization's activities (Financial Services Authority, 2002).

Outcome indicators, such as measures of service efficiency, tend to be less easily measured; therefore monitoring public sector performance is often far more challenging and complex, as performance indicators have to service a considerably more intricate pattern of accountability than the corporate financial statement (Smith, 1990).

According to Marlow (2005) performance indicators must be chosen carefully to directly support their related targets. There must, however, be a high degree of confidence that the performance data obtained gives a true indication of performance against targets, to allow success to be accurately measured.

A delicate balance needs to be struck between coverage and practicality; too few indicators and important aspects of performance will be missed; too many and the instrument will be impractical and costly to maintain (Freeman, 2002). Leggat *et al.* (1998), state that the need for multiple measures should be balanced against the selection of only those indicators critical to agreed targets. According to Smith (1995), an increase in the number of measures may reduce the focus of managers, and lead to demoralization and a reduction in managerial effort.

2.4.3 Performance Planning and Strategy Implementation

Senior leaders should play a role in ensuring performance planning aligns corporate strategy and objectives to individuals so that employees know how what they do fits with the organization's overall strategy (Chubb, Reilly, & Brown, 2011). This is known as the 'golden thread' of performance management (IDeA, 2004). Stiffler (2006, cited in Wikina, 2008) recommends that a 'unified approach to performance management' is

achieved through aligning the objectives, resources, and activities of the organization to the goals and opportunities of individuals within the organization (Karuhanga, 2010).

Lawson *et al.* (2003, cited in Elzinga *et al.*, 2009) found through research in 150 organizations, that two-thirds agreed that implementing performance management systems increased employees' awareness of company strategy and business plan goals, and helped to align operational improvements with the overall strategy. Wikina (2008) found that the need to align performance and goals with organizational strategy is causing organizations to examine the performance management structures they have in place and devise ways to make them more effective and outcome-based.

According to Cascio (1991, cited in Sillup *et al.*, 2010) performance planning should 'help managers groom their employees to accomplish objectives that will help the corporation gain competitive advantage and Borman (1991, cited in Sillup *et al.*, 2010) equally argues that effective performance planning requires relevance; through which there are clear links between the tasks for a job and organizational objectives. Murphy (2004) criticizes that organizational goals for performance appraisal systems are not considered carefully enough and this results in systems attempting to achieve too much. Moreover, Murphy and Cleveland (1995) make the point that the organizational goals for the appraisal system need to be compatible with what the appraiser and appraisee want to get out of it. If not, they will not use it effectively. The implication here is that many of the organizational purposes of appraisal are not of great value to the manager or the employee, so their compliance will at best be half-hearted and they may well consciously distort the process to achieve their own desired ends.

In a series of studies, Locke and Latham (1990) have shown strong evidence for the effectiveness of individual goal setting, although the majority of such work has not been done in the context of performance planning. They advocate the use of goals that are specific, moderately difficult, and accepted by the individual for whom they are set. The recurring theme here is about goals which the employee really agrees with, not goals which are imposed.

Alongside the importance of aligning employee's efforts with company objectives is the need to clearly communicate the organization's expectation of its employees (Chubb *et al.*, 2011). The Corporate Leadership Council (2002) concluded that employee understanding of performance standards and objectives is more influential than specific features of the performance management system itself in driving performance. The Acas Model Workplace also indicates that employees require clarity around expectations of them in terms of standards of performance and behavior and they need consistency in the application of processes. Acas state that at an individual performance planning is the 'ideal way of clarifying objectives' and that appraisals provide the opportunity for managers to check that employees understand what is expected of them (Acas, 2005). Wikina (2008) also states that in performance planning, expectations for employees need to be stated with clear, measurable performance goals.

2.4.4 Performance Monitoring and Reporting and Strategy Implementation

The literature shows that performance management and appraisal schemes need to be adequately coordinated and monitored (Chubb *et al.*, 2011). 'In addition to evaluating employees on a regular basis, organizations should assess the effectiveness of the appraisal system periodically' (Schraeder *et al.*, 2007). Rees and Porter (2004) argue that the role of HR needs to be emphasized in coordinating and facilitating the process. According to Wolff (2005), the Civil Aviation Authority recommends that the appraisal process should be regularly reviewed and adjusted if necessary, but warns against continually changing the scheme.

Cocca and Alberti (2010) also state that for effective performance management, the system needs to be dynamic and fluid to respond to changing business circumstances so that performance measures always remain relevant. They note, however, that few organizations often have the processes in place for monitoring their systems. Performance management systems consist of a collection of five elements: people, procedures, data, software, and hardware (Wettstein & Kueng 2002, cited in Cocca &

Alberti, 2010) and all of these elements need to be monitored to assess the effectiveness of a system.

According to Chubb *et al.* (2011) IES has conducted numerous evaluations of performance management systems as managers are often still quite poor at evaluating performance-with-evidence, so they often fall back on the tried and tested methods of which individuals they consider to be the most reliable, the most visible or, perhaps subconsciously, whom they feel most comfortable dealing with. IES has found that the outcome of this is that; people who work in non-standard patterns in the organization can get poorer performance outcomes (e.g. part-time workers, the majority of whom are women); people from black and minority ethnic groups tend to get poorer performance outcomes; women in more senior positions tend to get poorer performance outcomes; people with disabilities tend to get poorer performance outcomes; and senior staff tends to get better performance outcomes. Organizations need to think carefully about how they manage and measure performance as the implications can be serious for the real performance of an organization as well as for the people employed within it (Chubb *et al.*, 2011).

Performance is a multidimensional construct (Ostroff & Bowen, 2000) and has been variously conceptualized. Dyer and Reeves (1995) noted different types of performance measures that are most appropriate for performance management. They proposed four effectiveness measures: human resource outcomes such as absenteeism, turnover, and individual or group performance; organizational outcomes such as productivity, quality, and service; financial or accounting outcomes such as profitability, return on assets, and return on invested capital; and, stock market performance (stock value or shareholder return). Delaney and Huselid's (1996) use subjective market performance measure of the organizational performance indicator. This subjective market performance measure includes sales, profitability, and marketing. Although there are concerns about the use of subjective measures, such as increased measurement errors and the potential for

common method biases, there are still some compelling reasons for using such measures (Chuang & Liao, 2010; Delaney & Huselid, 1996; Takeuchi *et al.*, 2007).

First, (Gupta, 1987) noted that objective financial performance data on individual units that reveal their organizational identities are very difficult, indeed virtually impossible to obtain. Second, Wall *et al.* (2004) demonstrated convergent, discriminant, and construct validities of subjective performance measures judged against objective performance measures in research findings relating management practices and performance, suggesting that self-reported measures are useful in studies where objective ones are not available. They also estimated an average of .52 correlations between manager's perceived and actual firm performance (Wall *et al.*, 2004). Thirdly, subjective market performance measure comparative method has been suggested to be more effective at eliciting responses than directly asking respondents to provide exact figures (Tomas, Leiter, & Thompson, 1994). Furthermore, self-reported performance measures have often been employed in published studies on performance (e.g., Chuang & Liao, 2010; Delaney & Huselid, 1996; Takeuchi *et al.*, 2007; Sun *et al.*, 2007; Youndt *et al.*, 1996).

Performance measurement is often taken to be crucial to the delivery of improved services as part of new public management (Mbua & Sarisar, 2013). Emphasis on performance management for delivery of results is influenced by the basic assumption of performance management which lies in its ability to unite the attention of institution members on a common objective and galvanize them towards the attainment of this objective (Balogun, 2003).

According to Mbua and Sarisar (2013), performance management aims at by large to attaining operational effectiveness, which in a broader sense refers to a number of practices that allow an organization to better utilize its resources. But, Trivedi (2000) observed that public agencies either are not clear about their goals or are aiming at the wrong goals. This lead to fuzziness in the agencies perception of what is expected of them.

2.4.5 Regulatory Policy Compliance and Strategy Implementation

Regulatory policy is concerned with the institutional arrangements to promote regulatory quality across the government. Regulatory governance is concerned with the political oversight of regulatory policy (Parker & Kirkpatrick, 2012). According to Parker and Kirkpatrick (2012), several studies on regulatory policy have been carried out in the last ten years. The studies use various proxies for regulatory governance and cover a range of regulatory policies and economic effects.

In general, the studies suggest that there is evidence of a statistically significant and positive relationship between regulatory policy and governance and economic growth; while regulatory governance and the institutional framework in a country can mitigate the damaging impacts of particular regulatory policies (e.g. product and labor market regulation) on economic growth. One of the studies, by Gorgens *et al.* (2003) estimates that a heavily regulated economy might grow on average by about 2% to 3% less per annum than less heavily regulated ones, although this effect is mainly in terms of comparisons between moderately and highly regulated countries.

In their studies, Jacobzone *et al.* (2010) and Loayza *et al.* (2004) found a negative causal relationship between economic growth and overall regulation and separate product market and labor regulation. The relationship between regulation and GDP volatility is less consistent. However, the index of fiscal burden is found to have no significant link with economic growth. Also, the results for the labour market and product market regulation become small as the overall quality of a country's institutional framework improves, suggesting that better institutions help mitigate, and may even eliminate, the adverse impact of regulation on macroeconomic performance (Parker & Kirkpatrick, 2012). Djankov *et al.* (2006) used the World Bank's *Doing Business* database to establish the relationship between the burden of business regulations and economic growth.

The World Bank's Index covers 183 countries and measures the regulatory burden in terms of the costs (including time costs) of starting a new business, obtaining construction permits, employing workers, registering property, getting credit, paying taxes, trading across borders, enforcing contracts and closing a business. The results show a statistically significant relationship between the regulatory business burden and economic growth of a country in various specifications of the model. The findings suggest that moving from the worst to the best quartile of business regulation implies a 2.3 percentage point increase in average annual growth (Parker & Kirkpatrick, 2012).

A study carried out by Jillian, Kirkpatrick and Parker (2007) used the World Bank Governance Indicators data to derive a measure of the quality of regulatory policy and governance. The governance indicators are; voice and accountability, political instability, government effectiveness, regulatory quality, rule of law, control of corruption. The results show that the regulatory variables have the expected signs in terms of causation and are statistically significant in all cases. According to Parker and Kirkpatrick (2012), the results are consistent with the hypothesis that regulatory quality has a positive and causal impact on economic growth.

The above review indicates that government regulations and policy have an effect on overall business performance, economic performance, and hence implementation of strategies by individual organizations. Hence, regulations and policy are considered as an intervening variable in this study.

2.4.6 Strategy Implementation

According to (Ghosh, 2003) whatever may be done by management nothing affects the success or failure of a business enterprise more than how well the long-term direction of the business is set. This is set by use of a strategic plan. A strategic plan of a business enterprise consists of what the management decides about the future direction and scope of the business. It entails the managerial choice of alternatives action programs and approaches to achieve enterprise objectives. According to Thompson and Strickland

(2003), a company's strategic plan consists of the combination of competitive moves and business approaches that managers employ to please customers, compete successfully, and achieve organizational objectives.

Developing alternative strategies and making strategic choice constitute important steps in the process of strategic planning. Implementation of strategy is very vital in the process. The chosen strategy must be put into action effectively in order to achieve the strategic objectives. A good strategy without effective implementation can hardly be expected to succeed (Ghosh, 2003). According to Steiner and Miner (1986), "the implementation of policies and strategies is concerned with the design and management of systems to achieve the best integration of people, structures, processes, and resources, in reaching organizational purposes". According to McCarthy *et al.* (1987), it may be said to consist of securing resources, organizing those resources, and directing the use of these resources within and outside the organization.

Implementation of strategies involves a number of interrelated decisions, choices, and a broad range of activities. It requires the commitment and cooperation of all units, levels, and members if it is to succeed. According to Ghosh (2003), there are two interrelated task systems involved in the process namely; differentiation and integration. The differentiation is related to segmentation or dividing up the strategic plan into its component parts, that is, the subunit goals and objectives to be carried out by divisions, departments, and units.

The organizational units must be assigned their tasks, activities, and roles so as to provide a clear understanding of the responsibility for each part of the strategic plan. It is on the basis of the segmentation of the strategic plan and assignment of tasks and responsibilities for each primary unit of the activity that resources are allocated to the various operating units. It is necessary that the management should coordinate and integrate the diverse activities and roles into a unified and cohesive approach. The integration of functions and programs among organizational units over time is thus a

task system which is concerned with unifying the diverse segments of the sub-goals in conformity with the strategic goals of the enterprise as a whole (Harvey, 2011).

Strategy evaluation is the last step of the strategy management process. According to Ivanvic (2014), the key strategy evaluation activities are; appraising internal and external factors that are the root of present strategies, measuring performance, and taking corrective actions. Evaluation ensures that the strategy as well as its implementation meets the organizational objective. Successful evaluation starts with defining parameters that must be measured. These parameters should match the goals set in the strategy formulation and execution activities.

Many researchers have discussed the metrics for strategy formulation and implementation. The most mentioned one being the Balanced scorecard developed by Kaplan and Norton. Every firm adopts a number of key performance indicators, which measure whether driving activities lead to the expected results. Performance indicators must follow critical implementation factors which include; measuring the necessary time for strategy execution; organizational structure adequacy; organizational culture adequacy; resource planning and; leadership Ivanvic, (2014) and Okfalisa *et al.* (2014).

2.4.7 Strategy Implementation Resource Allocation and Deployment

Organizations require adequate resources for service delivery. The resources include human, financial, information and material (Simiyu, 2012). Human resources are a critical component in the implementation of the strategy. They possess human capital that is achieved by employing high qualified talented people with the ability to perform tasks assigned to them. Employees with such attributes give an organization human capital advantage. Armstrong (2005) defines human capital as the knowledge, skills and abilities of the people employed in an organization.

The human elements of the organization are those capable of learning, changing, creativity and providing thrust that can ensure the long-term survival of the organization if motivated. Intellectual capital consists of the stocks and flows of knowledge and skills available to an organization (Armstrong, 2005).

Boxall and Purcell (2003) suggested that human resource advantage can be traced to better people employed in an organization. Performance in organizations can be achieved with the help of high-performance work system which takes into account the factors affecting, individual performance such as recruitment procedures, motivation, training, and management development (Becker *et al.*, 1997).

According to Simiyu (2012), people are able to perform tasks if they have the right skills required for the job. Employees are able to implement performance contracting if they are sensitized and trained to be equipped with the knowledge and skills required. According to Lienert (2003), public services in many African countries face a challenge of shortage of human resource that relates to inadequate manpower in terms of numbers and key competencies, appropriate mindset and socio-psychological dispositions. This study will establish the adequacy of human resources in state corporations for implementation of the strategy.

Information resource in form of information communication technologies (ICT) benefits organizations in terms of enhanced service delivery, that is, record development and storage, payment of bills by customers and communication among departments, and external Government departments especially when connected to the Internet (Simiyu, 2012). According to Netchaera (2002) and Silcock (2001) citizens get connected to the government offices using electronic means of connection. In turn efficiency in public service delivery is achieved through faster dissemination of information to a larger audience. Interdepartmental exchange of information and merges of related services is enhanced. According to Simiyu (2012), this leads to a significant reduction of transaction costs, time, space and manpower.

Even as an information resource is important, there is a need for employees to be trained to use it. According to Kamar (2006), there is low information technology literacy in the country. He further argues that there is an uneven distribution of Internet facilities, high costs of connection, and in some cases low penetration on high-speed of connection to the Internet. This study will find out whether performance contracting process in state corporations facilitates allocation and provision of adequate ICT resources such as computers and internet connection. There are critical issues with regard to ICT. They include low fixed network penetration, especially outside Nairobi and non-urban areas; limited capacity of both dedicated and dial-up Internet links, poor quality of the local access network, inadequate independence of the communications, regulator, lack of ICT standards and lack of ICT policies (CAFRAD, 2005).

According to Simiyu (2012) organizations also require financial resources. For performance contracting to be well implemented, the financial resources should be adequate to allow budgeting for targets. The funds should also be remitted by the beginning of financial year. Kamar and Ongo'ndo (2007) argued that insufficient allocation of financial resources due to financial constraints and mixed government priorities slow down the introduction of reforms. Material resources inform of equipment and infrastructure should also be adequate for performance contracting target achievement.

According to Lienert (2003), there is a perennial problem of shortage of financial and material resources that are necessary for service delivery. The study will find out whether performance contracting process enhances allocation and provision of these resources adequate implementation of the state corporations strategy.

In a study conducted by Van den Hil (2011) on the implementation of performance contracts by the Dutch police, it was found out that the performance contracts are implemented by steering and accountability, performance payment is not used at the operational level (however, they find district chiefs that receive bonuses), some conflicts occur, but policemen support performance steering on the whole. Hil concluded that

subjective performance assessment is more appropriate in case of the police than objective performance assessment is supported by reality, by the opinion of the policemen interviewed and by Jacob *et al.* (2006).

According to Omboi and Kariuki (2011) in a study of performance contracting implementation by Maua municipal council, they found out that seventy-five percent of employees were able to deliver service targeted. This could be due to the fact that the performance contract document was designed to cascade the intended purpose of performance contract initiatives using relevant communication methods that were easily understood. This implied that managers did understand performance contract.

On participation of employees in target setting, Omboi and Kariuki (2011) found out that fifty-nine percent (59%) of employees were not involved in setting performance contract targets. According to Omboi and Kariuki (2011), the findings confirmed that low levels of academic qualifications resulted in less number of employees being involved in setting targets. On staff performance, the study found out that sixty-one percent of staff concurred of being satisfied with their performance since the introduction of the performance contract. Employees opinion on performance improvement showed that with the introduction of performance-based module, employees indicated that work environment in their areas had improved as they were able to work towards given targets which if met on time had a reward and if not, sanctions.

According to Obong'o (2009) performance contracting in Kenya is aimed at transforming the public service delivery system and making it a net contributor to the growth of the economy. Notwithstanding, the considerable debate and concern about the dysfunctional aspects of performance measurements in the public sector, performance contracting is firmly taking root. It has generally served to clarify roles and responsibilities and to improve performance. Performance contracting in some areas has proven to be more successful than in others. Improving the system like introducing change in any organization is an evolutionary process. The environment within which

the public sector reform is taking place is continually changing and the current practices will continually be subjected to review and assessment.

Performance contracting must, therefore, be continually reviewed and adapted to assist organizations to improve their service delivery (Obong'o, 2009). According to a study carried out by Zwane (2009) on the role of performance management in the motivation of employees, he concluded that the introduction of the performance management system was a success, but contrary to the expected outcomes, the system did not result in an improvement in the achievement of the objectives of the organizations.

The panel of experts on review the Performance Contracting (2010) selected to review and evaluate performance contracting in the public sector so as to make recommendations to the Government on how to improve the system noted that there are a disparity between performance management contracting and other performance management tools and instruments. They also noted that there is neither an adequate link between performance contracting and budgeting system nor a clear link of national priorities with the performance contracting.

The panel also noted the need to improve the current performance contracting matrix as it does not clearly capture the performance of the public service institutions. It was noted that there are too many matrices thus raising concern over the use of results for ranking and ignoring the fact that all the institutions have mandates to deliver and customers to serve as spelled out in the various Acts of Parliament. The panel also noted a difference between the results from the primary evaluation and the results finally announced due to the moderation of results.

According to Arif *et al.* (2015) Result-based performance measurement is a method used by organizations to measure the efficiency and effectiveness of their processes. This involves the collection of information and data to analyze process performance and/or input and output characteristics. To do this, companies design or adopt performance measures that provide valuable information about the current performance levels of

organizational activities. Performance measures are metrics used to quantify performance. The set of performance measures used by an organization forms the performance measurement system. Firms must carefully select these measures to provide a view of key performance areas to control and improve performance levels. It is the selection of this set of measures that has proved challenging.

As organizations are human groupings constructed to achieve specific goals, their performance is a sum total of individual employees in the organization. Traditional public administration models did not pay significant attention to the measurement of performance. Individual employees were appraised confidentially, without targets, and the approach was historical, with no opportunity to improve. Performance appraisal in public administration laid much emphasis on behavioral or personality characteristics such as loyalty, dependability, punctuality, honesty and so on as central attributes for the evaluation of an individual employee. Individual performance was never linked to departmental, divisional and organizational strategic goals and objectives. The urge to evaluate, measure and monitor performance of public institutions and employees have been the concern of politicians, public sector managers and users of public services. Consequently, interest in performance management and the need to develop appropriate performance management processes and measures has been increasing in the past two decades. In an effort to improve performance, efficiency, accountability, and effectiveness of public sector organizations, governments have adopted a variety of public sector reforms, and one of these is the performance management system (Dzimhiri, 2008).

Performance management was defined by Armstrong and Barron (2002) as a strategic and integrated approach to delivering sustained success to organizations by improving the performance of the people who work in them and by developing the capabilities of teams and individual contributors. Performance Management System is concerned with managing the organization, everyone in the business, performance improvement,

employee development, stakeholders' satisfaction and finally communication and involvement (Armstrong, 2005).

It is based on the principle of management by agreement or contract rather than management by command. It emphasizes development and the initiation of self-managed learning process plans as well as the integration of individual and corporate objectives. It is a continuous and flexible process that involves managers and their subordinates within a framework that sets out how they can best work to achieve the required results. Its focus is on future performance planning and improvement rather than on retrospective performance appraisal. It provides the basis for regular and frequent dialogues between managers and subordinates/teams on performance and development needs. It relies on performance reviews to make decisions on performance-related pay, as well as individual/team development plans. It is also a process for measuring outputs in the form of delivered performance compared to expectations expressed as objectives, targets, standards and performances indicators. It links organizational vision, missions, values and strategic goals to divisional, departmental and individual goals, objectives and tasks/ targets (Hanekom *et al.* 1987; Armstrong, 2005; Hughes, 2003).

According to Gachoka (2015), globalization has led to cut-throat competition which means that organizations have had to manage their performance very strictly in order to survive. It is from this backdrop that organizations in Kenya including the civil service have embarked on measures of improving performance. From the human resource management perspective, the performance targets should be clearly measurable so that individuals can gauge their performance. The targets come from the organizational targets. This form of management thinking has led to an improvement in organizational performance and especially service delivery has improved extensively especially in the public service. Most of these organizations are competing with global organizations so they have had to put in extra effort to survive. So with globalization organizations can no longer remain complacent.

Balanced scorecard and performance contracts are based on the maxim “what gets measured gets done”. It has been attributed to Peter Drucker, Tom Peters, Edwards Deming, Lord Kelvin and others (Williamson, 2006). The balanced scorecard and performance contract objectives should be SMART- specific, measurable, attainable, realistic, and time bound. The achievement of the objectives is periodically monitored. Therefore, they fit well in this maxim.

According to Rawes (2010), one of the most important tasks that the management has to do well is to motivate employees. There are four elements, all totally inter-related and interdependent. The first three are common– Target; Reward, and Motivation. The employee is motivated, having set and agreed on the Target, by providing Reward for its achievement. However, unless the fourth element is available, it will not work, namely Measurement. This is obvious, but what is less so is how to enable the Measurement element to drive the others to be more effective. The four elements and questions to be answered by organizations are: Financial; to succeed financially how should we appear to our shareholders? Customer; to achieve our vision, how we should appear to our customers? Internal business process; to satisfy our shareholders and customers, what business processes must we excel at?

2.5 Critique of the Existing Literature

The study by Mbua and Sarisar (2013) on Concept of performance contracting-Kenyan scenario/experience indicated that the debate in public sector has been more complex than just increasing the effectiveness of strategic management systems and decreasing the gap between strategic implementation and annual planning. On conducting Literature Review on the Value of Target Setting, Marlow (2005) argues that providing the option to refine targets can help to encourage target ownership and subsequent commitment. Many organizations that set performance targets fail to effectively monitor whether they are achieved, thus may risk defeating the object of setting them. Setting unmonitored or un-measurable targets is likely to be counterproductive, as the lack of available information obtained through the review process will limit the ability to plan

improvements. Furthermore, there is a risk that organizations will incorrectly assume that targets are being met, while actual stakeholders experience rather different circumstances. A real threat of disenchantment and failure exists for all managers who are not immersed in the target review process. These studies focused on target setting and performance, but the link between strategy implementation and target setting was not explored. The studies conducted by Marlow (2005) Mbua and Sarisar (2013) were on literature review, not on primary data collection. The studies also did not analyze literature on performance contracting and strategy implementation in commercial state corporations.

In their study on Performance Management through Literature Review Chubb *et al.* (2011) indicated that senior leaders should play a role in ensuring performance planning aligns corporate strategy and objectives to individuals so that employees know how what they do fits with the organization's overall strategy. Stiffler (2006, cited in Wikina, 2008) in the study on Effective performance improvement and management strategies for the information technology industry recommends that a 'unified approach to performance management' is achieved by aligning the objectives, resources, and activities of the organization to the goals and opportunities of individuals within the organization (Karuhanga, 2010). Lawson *et al.* (2003, cited in Elzinga *et al.*, 2009) in a study on Behavioral factors influencing use of performance management systems found out that through research in 150 organizations, two-thirds agreed that implementing performance management systems increased employees' awareness of company strategy and business plan goals, and helped to align operational improvements with overall strategy. Wikina (2008) found that the need to align performance and goals with organizational strategy is causing organizations to examine the performance management structures they have in place and devise ways to make them more effective and outcome-based. Wikina (2008) also states that in performance planning, expectations for employees need to be stated with clear, measurable performance goals. The study by Wikina (2008) was conducted in technology firms, and the study focused on management strategies and performance improvement. The studies by Wikina (2008)

and Elzinga *et al.* (2009) were not done in commercial state corporations and the studies did not focus on organizational strategy implementation.

The study based on a literature review on Performance management by Chubb *et al.* (2011) shows that performance management and appraisal schemes need to be adequately coordinated and monitored. In addition to evaluating employees on a regular basis, organizations should assess the effectiveness of the appraisal system periodically as indicated by Schraeder *et al.* (2007) in a study on Critical Examination of Performance Appraisals. Cocca and Alberti (2010) in their study on a framework to assess Performance Measurement Systems in SMEs also state that for effective performance management, the system needs to be dynamic and fluid to respond to changing business circumstances so that performance measures always remain relevant. They note, however, that few organizations often have the processes in place for monitoring their systems. According to Chubb *et al.* (2011), IES has conducted numerous evaluations of performance management systems as managers are often still quite poor at evaluating performance with evidence. Organizations need to think carefully about how they manage and measure performance as the implications can be serious for the real performance of an organization as well as for the people employed within it (Chubb *et al.*, 2011). Performance measurement is often taken to be crucial to the delivery of improved services as part of new public management (Mbua & Sarisar, 2013). The studies by Chubb *et al.* (2011), Schraeder *et al.* (2007), Cocca and Alberti (2010), Mbua and Sarisar, (2013) all agree that monitoring performance is important for an organization, but the studies do not study the link between monitoring performance and success of strategy implementation. The studies were also not carried out in commercial state corporations.

A study by Parker and Kirkpatrick, (2012) on measuring regulatory performance: The economic impact of regulatory policy through a literature review of quantitative evidence highlighted that Regulatory policy is concerned with the institutional arrangements to promote regulatory quality across the government. According to Parker

and Kirpatrick (2012), several studies on regulatory policy have been carried out in the last ten years. The studies use various proxies for regulatory governance and cover a range of regulatory policies and economic effects. In general, the studies suggest that there is evidence of a statistically significant and positive relationship between regulatory policy and governance and economic growth; while regulatory governance and the institutional framework in a country can mitigate the damaging impacts of particular regulatory policies (e.g. product and labor market regulation) on economic growth. One of the studies, by Gorgens *et al.* (2003) estimates that a heavily regulated economy might grow on average by about 2% to 3% less per annum than less heavily regulated ones, although this effect is mainly in terms of comparisons between moderately and highly regulated countries. The studies by Parker and Kirkpatrick, (2012) and Gorgens *et al.* (2003) agree that regulatory policy affects economic growth at the macro level, but the studies did not study the effect on individual organizations.

Omboi and Kariuki (2011) in their study on Factors affecting implementation of performance contract initiative at Municipal council of Maua-Kenya noted that 59% of employees were not involved in target setting. The targets were cascaded to them by their managers. Although they looked at the involvement of staff in target setting, they did not study how target setting in performance contracting affect strategy implementation. Omboi and Kariuki (2011) mention that employees are rewarded or sanctioned after performance appraisal, but they do not indicate what kind of rewards or sanctions are given to the employees and how the rewards and sanctions affect strategy implementation.

In his study on Implementation of Performance Contracting in Kenya, Obong'o (2009) argues that performance contracting process from the performance contracting department does not have the component of rewards. He highlights that performance contracting has been successful in some areas than in others but he does not indicate the cause of the difference in performance or how it affects strategy implementation. He does not also link performance contract objectives to resource allocation and deployment

in which the misalignment could be a cause of the difference in performance. In a study on *The Role of Performance Management in the Motivation of Employees* by Zwane (2009) the findings are in agreement with Obong'o (2009) that performance management did not result in an improvement in achievement of objectives in organizations but contrary to findings made by Omboi and Kariuki (2011). Zwane (2009) does not indicate the reasons behind a lack of improvement in the achievement of results. He does not also link performance contracting to strategy implementation.

2.6 Research Gaps

In their studies, Jacobzone *et al.* (2010) and Loayza *et al.* (2010) found a negative causal relationship between economic growth and overall regulation and separate product market and labor regulation. A study carried out by Jillian, Kirkpatrick, and Parker (2007) used the World Bank Governance Indicators data to derive a measure of the quality of regulatory policy and governance. The governance indicators are; voice and accountability, political instability, government effectiveness, regulatory quality, rule of law, control of corruption. The results show that the regulatory variables have the expected signs in terms of causation and are statistically significant in all cases. According to Parker and Kirkpatrick (2012), the results are consistent with the hypothesis that regulatory quality has a positive and causal impact on economic growth.

The studies conducted by Marlow (2005); Mbua and Sarisar (2013) were on literature review, not on primary data collection. The studies also did not analyze literature on performance contracting and strategy implementation in commercial state corporations. The study by Wikina (2008) was conducted in technology firms, and the study focused on management strategies and performance improvement. The studies by Wikina (2008) and Elzinga *et al.* (2009) were not done in commercial state corporations and the studies did not focus on organizational strategy implementation. The studies by Chubb *et al.* (2011), Schraeder *et al.* (2007), Cocca and Alberti (2010), Mbua and Sarisar (2013) all agree that monitoring performance is important for an organization, but the studies do not study the link between monitoring performance and success of strategy

implementation. The studies were also not carried out in commercial state corporations. The studies by Parker and Kirkpatrick, (2012) and Gorgens *et al.* (2003) agree that regulatory policy affects economic growth at the macro level, but the studies did not study the effect on individual organizations. Omboi and Kariuki (2011) mention that employees are rewarded or sanctioned after performance appraisal, but they do not indicate what kind of rewards or sanctions are given to the employees and how the rewards and sanctions affect strategy implementation.

In his study on Implementation of Performance Contracting in Kenya, Obong'o (2009) argues that performance contracting process from the performance contracting department does not have the component of rewards. He highlights that performance contracting has been successful in some areas than in others but he does not indicate the cause of the difference in performance or how it affects strategy implementation. He does not also link performance contract objectives to resource allocation and deployment in which the misalignment could be a cause of the difference in performance. Zwane (2009) does not indicate the reasons behind the lack of improvement in the achievement of results. He does not also link performance contracting to strategy implementation.

This study, therefore, based on the research gaps identified, studied the role of performance contracting on strategy implementation in commercial state corporations in Kenya. The study focused on the performance target setting, performance planning, performance monitoring, and reporting, and policies and regulations compliance, and their role in strategy implementation in the commercial state corporations in Kenya.

2.7 Chapter Summary

The chapter reviewed the theories and models of focus in this study relating to performance contracting and strategy implementation. The theories reviewed were Goal setting theory and the Resource-Based theory. The models reviewed are the performance-based management model and the Mckinsey 7s model. A conceptual framework was also developed in the above chapter by analyzing the relationship

between the dependent and independent variables. The conceptual framework was linked this particular study as discussed by Kobia and Mohamed (2006) in the Result Based Management model, the performance contracting independent variables adopted in this study were; Performance Target Setting, Performance planning, and Performance Monitoring and Reporting. The Strategy implementation dependent variable adopted in this study was resources allocation. The resource allocation variable was identified to measure the extent to which a strategy is being implemented by various researchers such as Kahuthu (2016), Kalali *et al.* (2011), Hrebiniak (2006), Allio (2005), Ibrahim *et al.* (2012) and Beer and Eisenstat (2000). An empirical review of the literature was also conducted focusing on all the study variables. A critique of the literature was also done and finally, the research gaps identified were highlighted.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter provides a description of the procedures and method used in carrying out the study. It starts with a brief description of the study area followed by a discussion of the research design, study population, sampling methods and procedures, data collection and analysis.

3.2 Research Philosophy

This study adopted the positivist philosophy which is derived from natural sciences. It is characterized by the testing of hypotheses developed from existing theory through measurement of observable social realities (Saunders, Lewis & Thornhill, 2009). It presumes that the social world exists objectively and externally. That knowledge is only valid if it is based on observations of the external reality. It also presumes that universal or general laws exist or that theoretical models can be developed that can be generalized. That it can also explain cause and effect relationships which are used to predicting outcomes (Eriksson & Kovalainen, 2008). Positivism philosophy is based on the values of truth, reason, and validity. And there is a focus solely on facts, gathered through direct observation and experience and measured empirically using quantitative methods such as surveys and experiments and statistical analysis (Krauss, 2005).

3.3 Research Design

According to Sekaran and Roger (2011), research design is a master plan that specifies the methods and procedures for collecting and analyzing the needed information. Cooper and Schindler (2011) argue that research design constitutes the collection, measurement, and analysis of the data to achieve for stated objectives. The study adopted a descriptive research design, which can also be referred to as a survey design (Kothari, 2004).

According to Kothari (2004), descriptive studies are those studies concerned with describing the characteristics of a particular individual or group; they are concerned with specific predictions, the narration of facts and characteristics concerning individuals or groups. The selected design was appropriate for this study because it allows for the collection of information for independent and dependent variables using structured and unstructured questionnaires (Orodho, 2003). The design also is the best served to gather information for purposes of the study (Mose, 2017). The descriptive research design was used successfully by Mose (2017) in the study on the role of corporate culture on the performance of commercial state corporations in Kenya. Mwangi (2015) in the study on Employees' Perception of Determinants of the Effectiveness of Performance Contracting on Service Delivery in Local Authorities in Kenya, and Simiyu (2015) in the study on Performance contract as a tool for improving performance in local authorities in Kenya.

3.4 Target Population

According to Cooper and Schindler (2011) population is the total collection of elements that form the main focus of a scientific query. According to Mugenda and Mugenda (2003) population is a complete set of individuals or cases with some common observable characteristics and that differentiate it from other populations, and a target population is that population to which a researcher wants to generalize the results of a study. The thirty-two (32) Commercial state parastatals in Kenya as at the year 2016 formed the population under study. The target population was chosen since, among the state corporations in Kenya, commercial state corporations face major competition in the market as they largely operate in the business competitive environment. Therefore, implementation of the strategy is of greater importance to them than the other state corporations tasked with the state mandate of service delivery to citizens.

3.4 Sampling Frame

According to Cooper and Schindler (2011) and Mugenda and Mugenda (2003) sampling frame is the list of elements from which the sample is drawn. According to Kothari

(2004), it contains the names of all items of a population, and it should be comprehensive, correct, reliable and appropriate. The study population was the Commercial State Corporations in Kenya. There were thirty-two (32) Commercial /Manufacturing State Corporations in Kenya listed in the State Corporations Advisory Committee (SCAC) website (www.scac.go.ke) as shown in Appendix II.

3.5 Sampling Technique and Sample Size

Sample size refers to the number of items to be selected from the population to constitute a sample (Kothari, 2004). According to Mugenda and Mugenda (2003), a sample is a subset of a particular population. A good and valid sample should be a representative of the target population (Kitchenham & Pfleeger, 2002). The sample size was calculated using Nassiuma (2000) formula which is illustrated as follows:

$$n = \frac{NC^2}{C^2 + (N - 1) e^2}$$

Where: n, N, C, e represent the sample size, the population, the coefficient of variation (0.5), and the precision level (0.05) respectively. The formula is used to calculate the sample as shown

$$n = \frac{32 \times 0.5^2}{0.5^2 + (32 - 1) 0.05^2}$$

$$n = 24.8$$

$$n = 25 \text{ state corporations}$$

The target population under the study was 32 commercial state corporations and using the above formula, the estimated sample size was 25 commercial state corporations. The 25 state corporations constituting the sample were selected using simple random sampling method. In this case, all commercial state corporations had an equal chance (probability) of being selected to participate in the study. Ten (10) respondents from each commercial state corporation were purposively selected (Table 3.1). The respondents were heads of departments or head of sections as they are engaged in performance contracting and strategy development and implementation. This is because they participate in strategy implementation and performance contracting. They were, therefore, best positioned to provide the information required for the study. In strategy implementation, organizational strategic objectives are cascaded down to departments and/or sections. Similarly, in performance contracting, targets are cascaded down to heads of departments or sections. This, therefore, justifies the selection of heads of departments and/or sections to be respondents in this study as they are the process owners. Choice of heads of departments has been used successfully in a study on the role of corporate culture on the performance of commercial state corporations in Kenya by Mose (2017).

Table 3.1: Respondents per sample

Population	Sample Size	No of respondents per sample	Total number of respondents
32 Commercial State Corporations	25	10	250

3.6 Data Collection Instruments

Primary data was collected. Primary data are those which are collected afresh and for the first time (Kothari, 2004). According to Kothari (2004), there are methods for collecting

primary data in descriptive research, which include; observation, interviews, questionnaire, schedules, warranty cards, etc. In this study, the primary data was collected using a questionnaire with structured and unstructured questions. The structured questions were on 5 points Likert scale. According to Kothari (2004), a Likert scale is a commonly used scale in research that uses questionnaires. Likert scales are good as they indicate the strength of the person's feeling to the subject in the questions, they are also easy to analyze, easy to collect data, are more expansive and they are also quick (Kothari, 2004). According to Mugenda and Mugenda (2003) structured questions refer to questions which are accompanied by a list of possible alternatives from which respondents select the answer that best describes their situation, and unstructured questions are questions which give the respondent complete freedom of response. The questionnaires were hand delivered to the selected respondents. According to Kothari (2004), the method is most extensively employed in various economic and business surveys.

3.7 Data Collection Procedure

Two hundred and fifty questionnaires were printed. First, authority was sought from the twenty-five sampled commercial state corporations for the collection of data. Once the authority was granted, the questionnaires were administered to the respondents in the twenty-five sampled commercial state corporations. The survey questionnaires were delivered to and collected from the respondents after an agreed upon time period. Respondents were required to respond to the questions and the researcher to collect the questionnaires. The respondents were heads of departments or head of sections as they are engaged in performance contracting and strategy development and implementation. Follow up was done using physical visits and phone calls to get a high number of responses.

3.8 Pilot Study

As recommended by Kothari (2004), a pilot study was carried out to assess the feasibility, appropriateness, and practicability of the research design, by administering the survey questionnaire to 1-10% of sample size as proposed by Mugenda and Mugenda (2003) of state corporations. Therefore, three (3) non-commercial state corporations were selected for the pilot study. Thirty questionnaires were administered to heads of departments/and or sections in the selected state corporations for the pilot study. The questionnaire was tested for validity and reliability after pre-testing and corrections made. According to Kothari (2004), validity indicates the degree to which an instrument measures what is supposed to measure and the instrument is reliable if it provides consistent results.

3.7.1 Validity of Research Instrument

Validity concerns what research instrument measures, and how well it does so (Mohajan, 2018). Validity is the accuracy and meaningfulness of inferences, which are based on the research results (Mugenda & Mugenda, 2003). Similarly, validity of a research instrument assesses the extent to which the research instrument measures what it is intended to measure (Robson, 2011). According to Creswell (2005) and Pallant (2011) validity test is mainly divided into four types of content validity, face validity, construct validity, and criterion-related validity.

Content validity is the extent to which the questions on the research instrument and the scores from these questions represent all possible questions that could be asked about the content (Creswell, 2005). It ensures that the questionnaire includes an adequate set of items that represent the concept. The more the scale items represent the domain of the concept being measured, the greater the content validity (Shekharan & Bougie, 2010). There is no statistical test to determine whether a measure adequately covers a content area, content validity usually depends on the judgment of experts in the field (Mohajan, 2018). According to Mohajan (2018), the unclear and obscure questions can be

amended, and the ineffective and nonfunctioning questions can be discarded by the advice of reviewers. In this study, the questionnaire was reviewed by the researcher and the supervisors. Unclear questions were reframed, some questions added, and others discarded. Content validity was also increased by studying questionnaires and questions used in similar studies.

Face validity is the degree to which a test appears to measure what it claims to measure (Leedy & Ormrod, 2004). It is a quick assessment of what the test is measuring (Mohajan, 2018). It is the simplest and least precise method of determining the validity and it relies entirely on the expertise and familiarity of the assessors concerning the subject matter (Nwana, 2007). If the research instrument is known to have content validity, face validity can be assumed, but face validity does not ensure content validity (Mohajan, 2018). Since the content validity for the research instrument under this study was known, it was assumed to have face validity.

Concurrent validity is the degree to which the scores on a test are related to the scores on another test, already established as valid, designed to measure the same construct. A test administered at the same time or to some other valid criterion available at the same time. It is necessary when a test for is constructed with a view to replacing less efficient one in used (Mohajan, 2018). In this study, the research instrument was not replacing another one.

3.7.2 Reliability of Research Instrument

The reliability refers to a measurement that supplies consistent results with equal values (Blumberg *et al.*, 2005). It measures consistency, precision, repeatability, and trustworthiness of a research instrument (Chakrabartty, 2013). The result of a researcher is considered reliable if consistent results are obtained in identical situations but different circumstances (Twycross & Shields, 2004). It indicates the extent to which it is without bias (error free), and hence ensures consistent measurement across time and across the various items in the research instrument (Mohajan, 2018). The coefficient of

reliability falls between 0 and 1, with perfect reliability equaling 1, and no reliability equaling 0. The general rule is that reliability greater than 0.8 is considered high (Downing, 2004).

The analysis of reliability was done to value the level of reliability of the data gained from the research. It aims to help the researchers to assume whether the data collected are reliable or not reliable. On pilot testing the research instrument, Cronbach *a*'s was computed using SPSS version 20, as a measure for construct reliability. The results of the test of Cronbach alpha was 0.912. The result indicated a strong level of reliability. According to Downing (2004), reliability greater than 0.8 is considered high, therefore, the questionnaire was considered reliable.

3.9 Data Analysis and Presentation

The collected data through questionnaires and interviews were prepared before analysis by editing, handling blank responses, coding, categorizing and entering the data in Statistical Package for Social Sciences (SPSS) version 20.0. Processing of the data included editing, coding, classification, and tabulation to make the data amenable to analysis (Kothari, 2004; Mugenda & Mugenda, 2003). The SPSS software version 20.0 was used for data processing and analysis. Analysis refers to the computation of certain measures along with searching for patterns of relationships that exist among data groups (Kothari, 2004). The data was cleaned by omitting the empty responses in the questionnaires and considering the valid responses in the analysis.

The study used descriptive analysis and regression analysis to analyze the data. The data that was collected using the unstructured questions were analyzed using content analysis. Content analysis is any research technique for making inferences by systematically and objectively identifying specified characteristics within the text (Prasad, 2008). According to Neuman (2005) content analysis is a technique for gathering and analyzing the content of the text. The content analysis was used to analyze the qualitative data in this study. The text of the unstructured questions was studied and

subdivided into themes guided by the objectives of the study as described by Muchelule (2018).

Quantitative data was analyzed using descriptive analysis; frequencies and percentages. Principal component analysis was done for each variable to obtain component scores, which were then used in regression analysis as the data was categorical. Hypotheses were then tested at 95% confidence interval. The data was presented in charts and tables. Multiple regressions were used to study functional relationship existing between two or more variables to determine how one or more variables affect other variables (Kothari, 2004). But first diagnostic tests were carried out to ensure validity and reliability of the data before running statistical tests. The tests carried out were; Test of sample adequacy using the KMO statistic; validity test using the Bartlett's test of sphericity; The Durbin Watson test to test for independence of errors, and multicollinearity test using the correlation matrix.

3.9.1 Sampling Adequacy Test

Adequacy of sample size was determined using the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy. According to Magd (2008) KMO is statistic used to examine and justify the appropriateness of application of Factor Analysis. The KMO statistic varies between 0 and 1. A value of 0 indicates that the sum of partial correlations is large relative to the sum of correlations, indicating diffusion in the pattern of correlations (hence, factor analysis is likely to be inappropriate). A value close to 1 indicates that patterns of correlations are relatively compact and so factor analysis should yield distinct and reliable factors (Field, 2009). Kaiser (1974) recommends accepting values greater than 0.5 as barely acceptable. According to Hutcheson and Sofroniou, 1999, values between 0.5 and 0.7 are mediocre, values between 0.7 and 0.8 are good, values between 0.8 and 0.9 are great and values above 0.9 are superb.

3.9.2 Sphericity Test

Bartlett's Test of Sphericity measures the null hypothesis that the original correlation matrix is an identity matrix. For factor analysis to be valid, there is need for some relationships between variables and if the R-matrix were an identity matrix, then all correlation coefficients would be zero. Therefore, this test is required to be significant at 95% confidence interval (Field, 2009). A significant test indicates that R-matrix is not an identity matrix, and therefore, there are some relationships between the variables to be analyzed. According to Field, 2009, Bartlett's Test of Sphericity Taking a 95% level of Significance, $\alpha = 0.05$ the p-value (Sig.) of $.000 < 0.05$, therefore the Factor Analysis is valid.

3.9.3 Independence of Errors Test

It is expected that the residue terms for any two observations should be independent (Field, 2009). Durbin-Watson test was used to test for the independence of errors between the variables. Gujarati (2003) observed that Durbin-Watson statistic ranges from 0 to 4. A value near 0 indicates positive autocorrelation while a value close to 4 indicates negative autocorrelation. Durbin-Watson statistic should be between 1 and 3 as recommended by Field (2009).

3.9.4 Multicollinearity Test

In statistics Multicollinearity occurs when two or more predictor variables in a multiple regression model are highly correlated (Bickel, 2015). The Gauss Markov assumption requires that there be no perfect multicollinearity. So long as there is no perfect multicollinearity the model can estimate all the coefficients and that the coefficients remain best linear unbiased estimates and that the standard errors are correct and efficient (DeFusco *et al.*, 2013). To detect multicollinearity one can use; correlation matrix, Variance Inflation factor, or Eigen System of Correlation Matrix. In this study,

correlation matrix was used. There is no multicollinearity in the data where there are no substantial correlations ($r > .9$) between predictors (Joshi, 2012).

3.10 Measurement of Variables

This section provides a description of the measurement of the independent, dependent, and the moderating variables in the study.

3.10.1 Measurement of the Dependent Variable

The strategy implementation measure adopted in this study was resources allocation and deployment. The measure have been identified to measure the extent to which a strategy is being implemented by various researchers such as Kahuthu (2016), Kalali *et al.* (2011), Hrebiniak (2006); Allio (2005),; Ibrahim *et al.* (2012); Beer and Eisenstat (2000). The variable items were adequacy of the resources allocated, and timeliness of resources deployment. All the variable items were measured using a five-point Likert scale. Respondents were asked to evaluate the extent to which they agree with practices in their organization on each item on the Likert scale where; 1= strongly disagree, 2= Disagree, 3= Neutral, 4= Agree, and 5= strongly agree. A high measure of strategy implementation was represented by high scores in the Likert Scale.

3.10.2 Measurement of the Independent Variables

The performance contracting measures adopted in this study as discussed by Kobia and Mohamed (2006) in the Result Based Management model, the performance contracting independent variables are; Performance Target Setting, Performance planning, and Performance Monitoring and Reporting. All the variable items were measured using a five-point Likert scale. Respondents were asked to evaluate the extent to which they agree with practices in their organization on each item on the Likert scale where; 1= strongly disagree, 2= Disagree, 3= Neutral, 4= Agree, and 5= strongly agree. As discussed by Kobia and Mohamed (2006) in the Result Based Management model, the performance contracting independent variables to be adopted in this study are;

Performance Target Setting, Performance planning, and Performance Monitoring and Reporting.

3.10.3 Operationalization of the Study Measures

This section operationalizes the measurement of the variables in the study. The operationalization is as summarized in Table 3.2 below.

Table 3.2: Measurement of study variables

Type of Variable	Variable Name	Sub-variables/measures	Measurement Tool
Dependent Variable	Strategy Implementation	Resource Allocation Adequacy	5 Point Likert Scale
		Resource Deployment timeliness	5 Point Likert Scale
Independent Variable	Performance Target Setting	Participation	5 Point Likert Scale
		Information flow	5 Point Likert Scale
Independent Variable	Performance Planning	Capabilities	5 Point Likert Scale
		Competencies	5 Point Likert Scale
Independent Variable	Performance Monitoring and Reporting	Measurement	5 Point Likert Scale
		Analysis	5 Point Likert Scale
Moderating Variable	Policies and Regulations compliance	Regulatory Framework	5 Point Likert Scale
		Government Policy	5 Point Likert Scale

3.10.4 Hypotheses Testing

Every test of significance begins with a null hypothesis H_0 (Kaur, 2015). A Null hypothesis is a specific baseline statement to be tested and it usually takes such forms as “no effect” or “no difference.” An alternative (research) hypothesis is a denial of the null hypothesis (Bali, Gupta, & Gadhi, 2008). According to Kaur (2015) steps in testing of hypothesis include; Establishing the null hypothesis and alternative hypothesis; Setting up a suitable significance level e.g. at 1%, 5%, 10% level of significance etc.; Determining a suitable test tool like t, Z, F, Chi Square, ANOVA etc; Calculating the value of test statistic using any of test tools; and Comparing the calculated value with table value. In this study, the null hypotheses were established in chapter one, the level of significance at 5%, the test tool is t-test as the sample was less than 30, and a comparison of the calculated value was done using SPSS version 20.0 in order to make a decision whether to accept or reject the null hypothesis.

The model employed is as shown below;

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + u$$

Where a is constant which is y intercept- strategy implementation without performance contracting effect.

Y is the dependent variable- strategy implementation.

X_1 is an independent variable- Performance target setting as a measure of performance contracting.

X_2 is an independent variable- Performance planning as a measure of performance contracting.

X_3 is an independent variable- Performance monitoring and reporting as a measure of performance contracting.

X_4 is a moderating variable- Policies and regulations compliance as a variable moderating the role of performance contracting on strategy implementation.

b_1 , b_2 , b_3 and b_4 are standardized coefficients

u (error term) are other variables that affect the strategy implementation, such as; political environment, that affect strategy implementation in commercial state corporations.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

The main objective of the study was to analyze the role of performance contracting on strategy implementation in commercial state corporations in Kenya. The specific objectives of the study were the following; to assess role of performance target setting on strategy implementation in commercial state corporations in Kenya; to evaluate role of performance planning on strategy implementation in commercial state corporations in Kenya; to investigate role of performance monitoring and reporting on strategy implementation in commercial state corporations in Kenya; and to determine the moderating effect of policies and regulations compliance on the relationship between performance contracting and strategy implementation in commercial state corporations in Kenya.

This chapter provides research findings and discussions. It starts with response rate and reliability and validity test results of the research instrument followed by a presentation of the findings for the variables and discussion of the findings, and their interpretation. The collected data was cleaned, coded and analyzed using the Statistical Package for Social Sciences (SPSS) version 20.0.

4.2 Response Rate

This section discusses the response rate. Response rate refers to the number of responses received out of the total number of sampled units (Fowler, 2010). From the 25 sampled state corporations responses were received from all the 25 state corporations. This accounts for 100% response rate from the sampled commercial state corporations. The high response rate from all the sampled commercial state corporations was attributed to the drop and pick method adopted, and follow up to ensure there were responses from all the sampled corporations. According to Mugenda and Mugenda (2003), for analysis and

reporting, a response rate of 50% is adequate, 60% is generally good, and above 70% is excellent. According to Babbie (2010), a response rate of above 70% is considered to be very good.

4.3 Sample Size and Validity of the Research Instrument

This section provides analysis on the adequacy of sample size using the KMO measure of sampling adequacy and validity was tested using Bartlett's test of sphericity.

Table 4.1: Sample size and validity test

Variables	KMO Measure of sample size adequacy	Validity (Bartlett's test of sphericity)
Role of performance target setting on strategy implementation in commercial state corporations in Kenya	0.747	Sig 0.000
role of performance planning on strategy implementation in commercial state corporations in Kenya	0.651	Sig 0.000
role of performance monitoring and reporting on strategy implementation in commercial state corporations in Kenya	0.753	Sig 0.000
the moderating effect of policies and regulations compliance on the relationship between performance contracting and strategy implementation in commercial state corporations in Kenya	0.712	Sig 0.000

The KMO statistic varies between 0 and 1. A value of 0 indicates that the sum of partial correlations is large relative to the sum of correlations, indicating diffusion in the pattern of correlations (hence, factor analysis is likely to be inappropriate). A value close to 1 indicates that patterns of correlations are relatively compact and so factor analysis

should yield distinct and reliable factors (Field, 2009). Kaiser (1974) recommends accepting values greater than 0.5 as barely acceptable. According to Hutcheson and Sofroniou (1999), values between 0.5 and 0.7 are mediocre, values between 0.7 and 0.8 are good, values between 0.8 and 0.9 are great and values above 0.9 are superb. All the KMO test results for the four variables are above 0.5 indicating the adequacy of the sample size.

According to Field, 2009, Bartlett's Test of Sphericity Taking a 95% level of Significance, $\alpha = 0.05$ the p-value (Sig.) of $.000 < 0.05$, therefore the Factor Analysis is valid. For all the four variables, the sig of 0.000 is less than 0.05 at 95% confidence level, therefore indicating the data is reliable.

4.4 Demographic Information

This section describes the demographic features of importance that were considered in the study. They were gender, age bracket, the highest level of education and current position in the organization.

4.4.1 Respondent's Gender

The respondents were required to indicate their gender in the research instrument, either male or female. The responses were analyzed using descriptive analysis. The respondents were 64.5% male and 35.9% female as indicated in figure 4.1 below. According to Kothari (2004) a ratio of at least 1:2 in either gender representation in the study is representative enough.

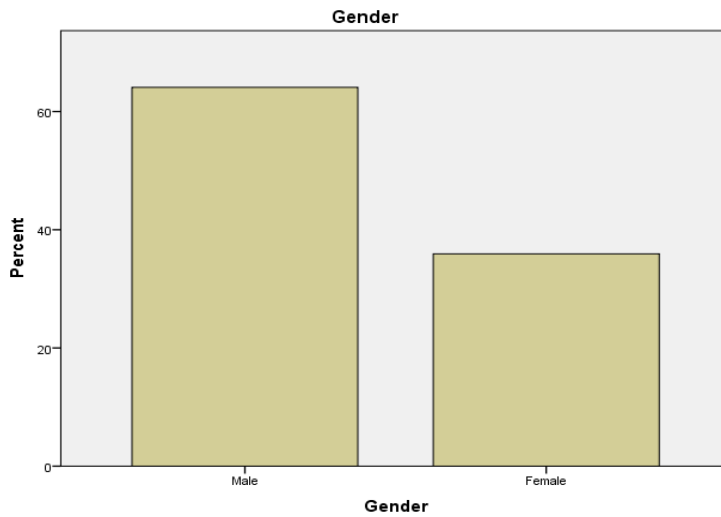


Figure 4.1: Gender of the respondents

4.4.2 Age Bracket of the Respondents

The study had five categories of age brackets. Below 30years, between 31 and 40years, between 41 and 50 years, between 51 and 60years, and above 60 years. In Kenya, the retirement age for government officials is set at 60years. The respondents indicated in the questionnaire their age bracket and the data was analyzed. The results indicate that 5% were below 30years, 20.4% between 31-40 years, 43.1% between 41-50years, 27.6% between 51-60years, and 3.9% above 60years, as shown in figure 4.2 below. This indicates that majority of the heads of departments in commercial state corporations are between 31 and 60years of age, with the highest number being between 41-50years age bracket.

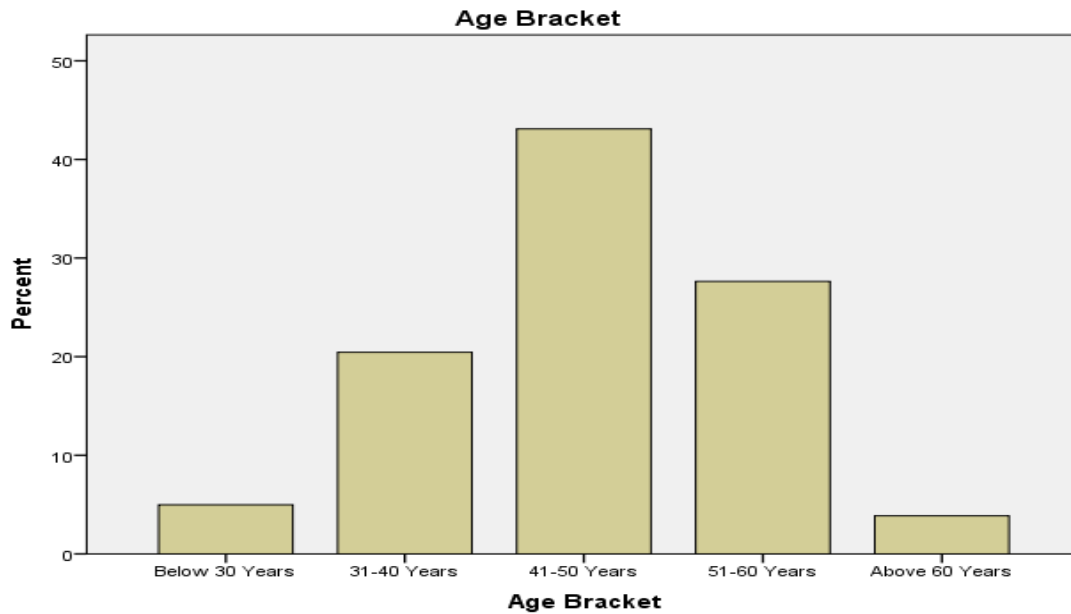


Figure 4.2: Age bracket of the respondents

4.4.3 Highest Education Level of the Respondents

The respondents who participated in the study were required to indicate their highest level in the questionnaire. Six levels of education were provided, where they were required to indicate the highest level attained. The six categories were; Secondary-O level/A level, Diploma, Higher National Diploma, Bachelors Degree, Masters Degree, and Ph.D. Degree. Results indicate that 2.8% had Secondary-O level/A level qualification, 8.3% Diploma, 11.0% Higher National Diploma, 37.6% Bachelors Degree, 39.2% Masters Degree, and 1.1% Ph.D. Degree, as shown in figure 4.3 below. The results show that the majority of heads of departments and sections in commercial state corporations have higher education level qualification particularly higher national diploma, bachelors degree, and master degree. Masters degree accounted for the highest number at 39.2%.

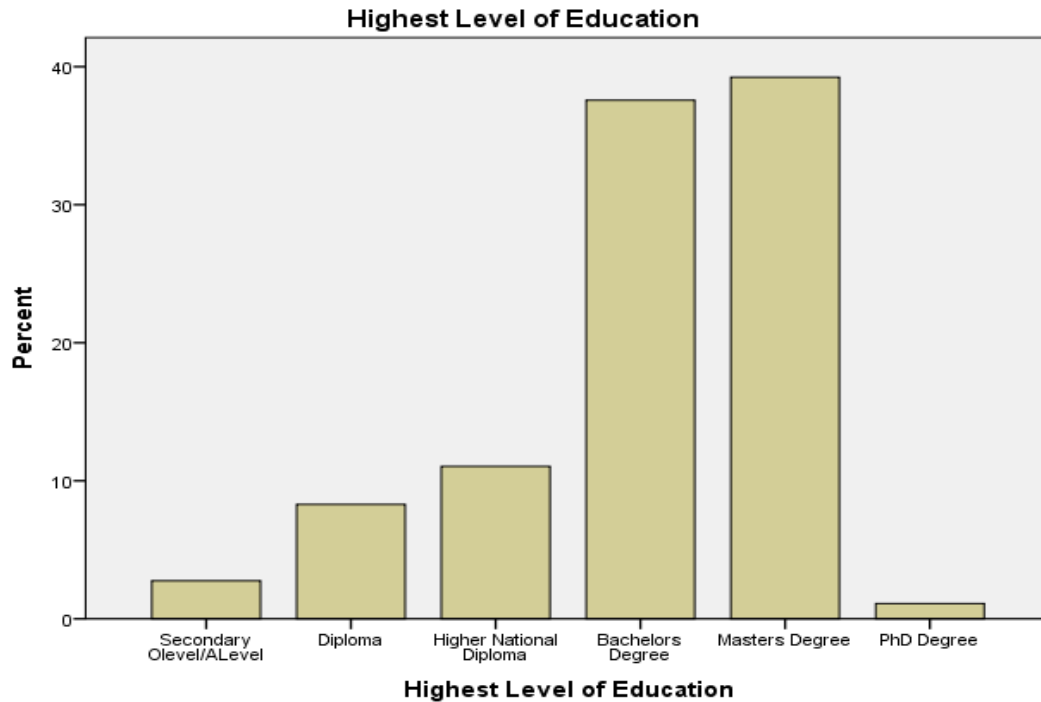


Figure 4.3: Highest level of education

4.4.4 Current Position in the Organization

The study had three categories of positions in the organization. This categorization was to ensure that the respondents were the target respondents to ensure validity and reliability of the information provided. The three categories were; In charge Corporate Planning or equivalent, Head of Department/Section/Division, Other. The respondents indicated in the questionnaire their current position and the data was analyzed. The results showed that 32.2% of the respondents were in charge Corporate Planning or equivalent, 60% were Heads of Department/Section/Division, and 7.8% were others. This shows that the study reached the target respondents by 92.2%. Even the 7.8% were those standing in for the heads of departments or sections or divisions.

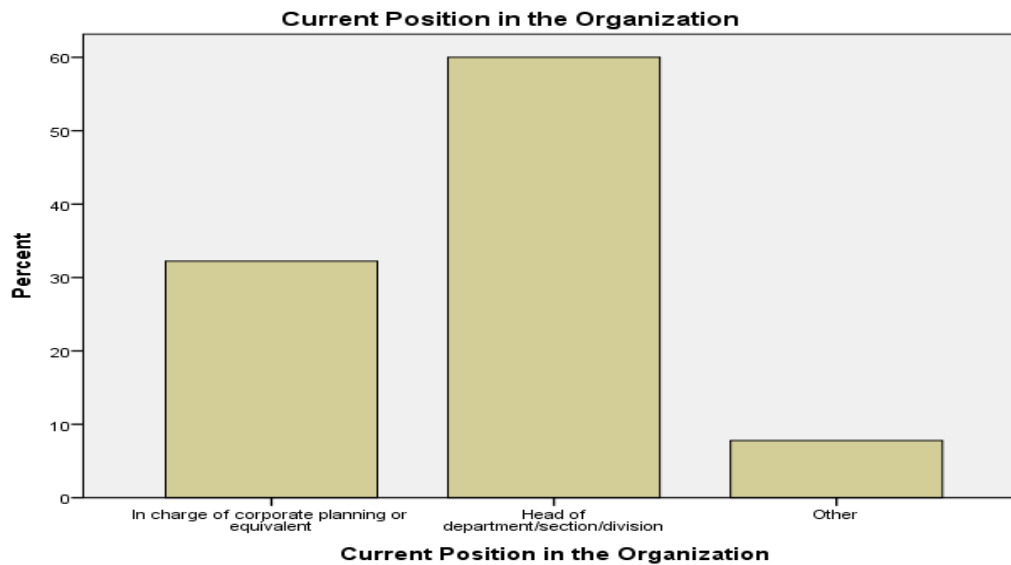


Figure 4.4: Current position

4.5 Performance Target Setting and Strategy Implementation

This section provides results of the analysis for independent variable performance target setting in commercial state corporations. The study sought to assess the role of performance target setting on strategy implementation in commercial state corporations in Kenya.

4.5.1 Descriptive Analysis

A 5 point Likert scale was used to measure the target setting and the results are as indicated in table 4.2 below. Performance target setting was measured by 10 indicators in the Likert scale. The respondents were required to indicate the extent to which they agree with the provided statement depicting the relationship between the performance target setting in performance contracting and strategy implementation. But first, they were required to give their opinion on whether performance target setting influence

strategy implementation, of which 99.3% of the respondents indicated performance target setting in their opinion influences strategy implementation.

Table 4.2: Performance target setting and strategy implementation descriptive analysis

Indicator	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Active staff participation in performance target setting	1.7	2.2	1.7	90.6	5.6
Deriving performance targets from strategic plan	0.6	1.1	2.8	90.0	5.6
Aligning performance contract objectives with strategic plan objectives	0.6	1.1	7.9	85.4	5.1
top management full involvement in aligning performance contract targets and strategic plan objectives	0.6	1.1	20.4	71.8	6.1
staff training on the alignment of performance targets with strategic plan objectives	0	1.1	24.2	64.6	10.1
Enhancement of both up-bottom, and bottom-up information flow when setting performance targets in line with strategic plan objectives	0	0.6	24.3	66.9	8.3
cascading of aligned performance contract targets with strategic plan objectives to all employees	0.6	1.1	25.6	66.1	6.7
staff consideration of strategic plan objectives when setting performance contract targets	0	1.1	21.7	69.4	7.8
informing staff of performance contract targets which are not derived from the strategic plan	0	1.1	11.1	81.1	6.7
informing staff of strategic plan objectives not included in the performance contract	0	2.2	16.2	76.5	5.0

Table 4.2 above shows that 90.1% of the respondents agree that performance contracting enhances active staff participation in performance target setting and strategy implementation. When staff actively participate in target setting this enhances strategy implementation buy-in. In addition, 90.0% of the respondents agree that performance contracting enhance individual employees' to derive their performance targets from the strategic plan. Therefore, this enhances alignment of the performance contract objectives with strategic objectives. Similarly, 85.4% of the respondents agree that in setting performance targets, employees align performance contract objectives with strategic plan objectives. Therefore, this also enhances alignment of the performance contract objectives with strategic objectives.

The findings of the study also show that 71.8% of the respondents agree that performance contracting enhance top management full involvement in aligning performance contract targets and strategic plan objectives. This, therefore, indicates that when there is top management involvement in the setting targets there is more management commitment in the performance contracting process and in strategy implementation. In addition, 64.6% of the respondents agree that performance contracting enhance staff training on how to align performance targets with strategic plan objectives, as 24.2% of the respondents were silent on facilitation of staff training by performance contracting so that they can be able to align performance contract objectives with strategic objectives. This, therefore, indicates that staff training as a factor of enhancing strategy implementation should be more considered in performance contracting.

As also shown in table 4.3 above, 66.9% of the respondents agree that performance contracting enhance both up-bottom, and bottom-up information flow when setting performance targets in line with strategic plan objectives. Therefore, there is need to put more emphasis on the information flow, both bottom-up, and top down. Also, 66.1% of the respondents agree that performance contracting enhances cascading of aligned performance contract targets with strategic plan objectives to all employees in the

organization. Cascading of the aligned objectives is not well done using performance contracting based on the respondents' responses. At the same time, 69.4% of the respondents agree that performance contracting enhance staff consideration of strategic plan objectives when setting performance contract targets. Therefore, performance contracting does not fully give staff in all state corporations an opportunity to address strategic objectives in the performance contract. Similarly, 81.1% of the respondents agree that performance contracting ensures staff are informed of the performance contract targets which are not derived from the strategic plan. Lastly, 76.5% of the respondents agree that performance contracting ensures staff are informed of the strategic plan objectives not included in the performance contract. State corporations need to address that gap of the strategic objectives not included in the performance contract.

These findings agree with the study carried out Marlow (2005) who indicated that performance indicators must be chosen carefully to directly support their related targets. There must, however, be a high degree of confidence that the performance data obtained gives a true indication of performance against targets, to allow success to be accurately measured. According to Hale and Whitlam (1998); Portelli *et al.* (1997), feedback gained from review can also help to present the opportunity to modify targets to reflect new insights and may highlight issues for improvement. According to Harlow (2005), providing the option to refine targets can help to encourage target ownership and subsequent commitment.

The findings of this study, therefore, imply that performance target setting enhances alignment of the performance contract objectives with strategic objectives. It also enhances alignment of the performance contract objectives with strategic objectives. When there is top management involvement in the setting targets there is also more management commitment in the performance contracting process and in strategy implementation. The findings also, indicate that staff training as a factor of enhancing strategy implementation should be more considered in performance contracting. There is

also need to put more emphasis on the information flow, both bottom-up, and top down. Cascading of the aligned objectives is not well done using performance contracting based on the respondents' responses. Also, performance contracting does not fully give staff in all state corporations an opportunity to address strategic objectives in the performance contract.

4.5.2 Performance Target Setting and Strategy Implementation Sample Adequacy and Validity Test

This section presents the results of analysis for sample adequacy and validity test, as shown in table 4.3 below. The KMO statistic varies between 0 and 1. A value of 0 indicates that the sum of partial correlations is large relative to the sum of correlations, indicating diffusion in the pattern of correlations (hence, factor analysis is likely to be inappropriate). A value close to 1 indicates that patterns of correlations are relatively compact and so factor analysis should yield distinct and reliable factors (Field, 2009). Kaiser (1974) recommends accepting values greater than 0.5 as barely acceptable. According to Hutcheson and Sofroniou (1999), values between 0.5 and 0.7 are mediocre, values between 0.7 and 0.8 are good, values between 0.8 and 0.9 are great and values above 0.9 are superb. KMO test result was 0.747 indicating the adequacy of the sample size.

Table 4.3: Performance target setting and strategy implementation sample adequacy and validity test

Test	Result
KMO Measure of Sampling Adequacy	0.747
Bartlett's Test of Sphericity; Sig.	0.000

4.5.3 Performance Target Setting and Strategy Implementation Principal Component Analysis and Multicollinearity Test

On carrying out the principal component analysis, one factor was extracted with loadings over 0.5 accounting for 4 variables. Composite scores for the factors was then carried out using the data reduction procedure in SPSS and a single regression factor computed for the one factor. Linear regression on factor component scores was carried as the data was categorical. The factor was then regressed on the dependent variable generating the following output.

The role of performance target setting on strategy implementation was determined by carrying out a regression analysis between the dependent variable strategy implementation and the independent variable, role of performance target setting. On running a correlation matrix, there was no multicollinearity in the data as there were no substantial correlations ($r > .9$) between predictors.

4.5.4 Performance Target Setting and Strategy Implementation Model Summary and Hypothesis Testing

The regression model is fit as indicated in the Model Summary in table 4.4 below. The proportion of the variance explained by the model is 0.101 ($R=0.101$). The improvement of the model on adding independent variable is not good as R^2 changes to 0.010; this change is insignificant as the Sig. F change (0.256) is greater than 0.05 at 95% confidence level. The model is a not a significant fit of the data overall, as the sig =0.256 in the ANOVA table below at 95% confidence level is greater than 0.05. Finally, the assumption that errors in the regression are independent has been met; this as the Durbin–Watson statistic (2.080) is close to 2 (and between 1 and 3), as recommended by Field, 2009.

Table 4.4: Performance target setting and strategy implementation model summary and hypothesis testing

R	R Square	R Change	Square	Sig. F Change	Durbin-Watson
0.101	0.010	0.010		.256	2.080

As indicated in table 4.5 below, the coefficients (B value) indicate the contribution of the predictor to the model. The contribution is insignificant as the sig value is 0.256 at $\alpha=0.05$ is greater than the recommended maximum sig. value of 0.05.

Table 4.5: Performance target setting and strategy implementation regression coefficients

	Unstandardized Coefficients (B)	t	Sig. (95% confidence interval)
Constant	-0.002		
Regression factor	-0.088	1.141	0.256

Therefore the null hypothesis H_{01} : Performance target setting has no significant influence on strategy implementation in commercial state corporations in Kenya was accepted.

4.6 Performance Planning and Strategy Implementation

This section provides results of the analysis for independent variable performance planning in commercial state corporations. The study sought to assess the role of performance planning on strategy implementation in commercial state corporations in Kenya.

4.6.1 Descriptive Analysis

A 5 point Likert scale was used to measure performance planning and the results are as indicated in table 4.6 below. Performance target setting was measured by 10 indicators in the Likert scale. The respondents were required to indicate the extent to which they agree with the provided statement depicting the relationship between performance planning in performance contracting and strategy implementation. But first, they were required to give their opinion on whether performance planning influence strategy implementation, of which 99.3% of the respondents indicated performance planning in their opinion influences strategy implementation.

Table 4.6: Performance planning and strategy implementation descriptive analysis

Indicator	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
employees are trained in performance planning so as to implement a strategic plan	0.6	0	2.2	90.6	6.6
Capability of employees to plan for implementation of performance contract and strategic plan	0	0.6	6.7	83.9	8.9
Development of a standardized work plan format	0	0	12.2	79.6	8.3
Adequate staffing of the organization for implementation of the strategic plan	0	2.8	25.6	61.1	10.6
Hiring of competent staff for implementing the organization's strategy	0	1.1	17.3	74.3	7.3
Competent Staff involvement in performance planning and strategy implementation	0	1.7	15.2	78.7	4.5
Consideration of staff competence in the allocation of work and strategy implementation	0	0.6	15.7	78.7	5.1
Regular updating of employees goals to align with business objectives	0	1.1	15.6	78.3	5.0
Adequate allocation of resources during performance planning for strategy implementation	0	2.2	13.3	78.3	6.1
Managers are skilled in performance coaching and give timely, actionable feedback	0	1.7	10.6	82.1	5.6

As shown in table 4.6 above, 90.6% of the respondents agree that performance contracting ensures employees are trained in performance planning so as to implement the strategic plan. Eighty three point nine percent the respondents agree that performance contracting enhances the capability of employees to plan for implementation of performance contract and strategic plan. Similarly, 79.6% of the respondents agree that Performance contracting enhances the development of a standardized work plan format in the organization for implementation of performance contract that aids in strategy implementation. In addition, a sizeable number of respondents (12.2%) are silent on the facilitation of development of standardized work plan by performance contracting. Therefore, state corporations that do not develop standardized work plans need to develop them, for ease of implementation, collation, and monitoring of strategy implementation progress.

The study findings also indicate that 61.1% of the respondents agree that performance contracting enhance adequate staffing of the organization for implementation of the strategic plan. Based on the responses, it is clear that performance contracting does not address the training aspect of many staff in some state corporations. Furthermore, 74.3% of the respondents agree that performance contracting assist the organization in the hiring of competent staff for implementing the organization's strategy. Therefore, state corporations need to address the aspect of hiring competent staff for performance contracting processes and strategy implementation. Additionally, 78.7% of the respondents agree that performance contracting ensures staff who are involved in performance planning and strategy implementation are competent. Involvement of competent staff also needs to be given more emphasis. Similarly, 78.7% of the respondents agree that performance contracting ensures staff competence is considered in the allocation of work and strategy implementation. In the allocation of work also staff competence should be given a high priority as this has a direct role in strategy implementation.

As shown in table 4.6 above, 78.3% of the respondents agree that performance contracting ensures employees goals are regularly updated to align with business objectives. Regularly updating of employees goals to align with business objectives consideration should be factored in the performance contracting process. Similarly, 78.3% of the respondents agree that performance contracting ensures adequate resources are allocated during performance planning for strategy implementation, while, 82.1% of the respondents agree that performance contracting ensures managers are skilled in performance coaching and give timely, actionable feedback for performance plans and strategy implementation.

The findings of this study are in agreement with the findings by Chubb, Reilly, and Brown (2011), who indicated that senior leaders should play a role in ensuring performance planning aligns corporate strategy and objectives to individuals so that employees know how what they do fits with the organization's overall strategy. Stiffler (2006, cited in Wikina, 2008) also recommends that a 'unified approach to performance management' is achieved through aligning the objectives, resources, and activities of the organization to the goals and opportunities of individuals within the organization (Karuhanga, 2010). Similarly, Lawson *et al.* (2003, cited in Elzinga *et al.*, 2009) found through research in 150 organizations, that two-thirds agreed that implementing performance management systems increased employees' awareness of company strategy and business plan goals, and helped to align operational improvements with the overall strategy. Also, Wikina (2008) found that the need to align performance and goals with organizational strategy is causing organizations to examine the performance management structures they have in place and devise ways to make them more effective and outcome-based.

The findings of this study, therefore, implies that state corporations that do not develop standardized work plans need to develop them, for ease of implementation, collation, and monitoring of strategy implementation progress. Based on the responses, it is clear that performance contracting does not address the training aspect of many staff in some

state corporations. Therefore, state corporations need to address the aspect of hiring competent staff for performance contracting processes and strategy implementation. Also, in the allocation of work, staff competence should be given a high priority as this has a direct role in strategy implementation. Lastly, regularly updating of employees goals to align with business objectives consideration should be factored in the performance contracting process.

4.6.2 Performance Planning and Strategy Implementation Sample Adequacy and Validity Test

This section presents a diagnostic analysis of data on the adequacy of sample and validity for purposes of carrying out principal component and regression. The results of the analysis for sample adequacy using the KMO statistic and validity test using Bartlett's test of sphericity are as shown in table 4.8 below. The KMO statistic varies between 0 and 1. A value of 0 indicates that the sum of partial correlations is large relative to the sum of correlations, indicating diffusion in the pattern of correlations (hence, factor analysis is likely to be inappropriate). A value close to 1 indicates that patterns of correlations are relatively compact and so factor analysis should yield distinct and reliable factors (Field, 2009). Kaiser (1974) recommends accepting values greater than 0.5 as barely acceptable. According to Hutcheson and Sofroniou (1999), values between 0.5 and 0.7 are mediocre, values between 0.7 and 0.8 are good, values between 0.8 and 0.9 are great and values above 0.9 are superb. KMO test result for this variable was 0.651 which was above 0.5 indicating the adequacy of the sample size.

Table 4.7: Performance planning and strategy implementation Sample adequacy and validity test

Test	Result
KMO Measure of Sampling Adequacy	0.651
Bartlett's Test of Sphericity; Sig.	0.000

4.6.3 Performance Planning and Strategy Implementation Principal Component Analysis and Multicollinearity test

On carrying out the principal component analysis, one factor was extracted with loadings over 0.5 composed of 5 variables. Composite scores for the factors was then carried out using the data reduction procedure in SPSS and a single regression factor computed for the one factor. Linear regression on factor component scores was carried as the data was categorical. The factor was then regressed on the dependent variable generating the following output.

The role of performance planning on strategy implementation was determined by carrying out a regression analysis between the dependent variable strategy implementation, and the independent variable, the role of performance planning on strategy implementation. On running a correlation matrix, there was no multicollinearity in the data as there are no substantial correlations ($r > .9$) between predictors.

4.6.4 Performance Planning and Strategy Implementation Model Summary and Hypothesis Testing

The regression model is fit as indicated in the Model Summary, in table 4.8 below, and ANOVA table below. The proportion of the variance explained by the model is 0.190 ($R=0.190$). The improvement of the model on adding independent variable is good as R^2 changes to 0.036; this change is significant as the Sig. F change (0.036) is less than 0.05 at 95% confidence level. The model is a significant fit of the data overall, as the sig =0.030 in the ANOVA table below at 95% confidence level. Finally, the assumption that errors in the regression are independent has been met; this as the Durbin–Watson statistic (2.166) is close to 2 (and between 1 and 3), as recommended by Field, 2009.

Table 4.8: Performance planning and strategy implementation model summary and hypothesis testing

R	R Square	R Change	Square	Sig. F Change	Durbin-Watson
0.19	0.036	0.029		.030	2.166

As indicated in table 4.9 below, the coefficients (B value=0.176) indicate the contribution of the predictor to the model. The contribution is significant as the sig value is 0.030 at $\alpha=0.05$ is less than the recommended maximum sig. value of 0.05.

Table 4.9: Performance planning and strategy implementation regression coefficients

	Unstandardized Coefficients (B)	t	Sig. (95% confidence interval)
Constant	-0.010		
Regression factor	0.176	2.193	0.030

As a result of the findings of the study, therefore, the null hypothesis H₀₂: Performance planning has no significant influence on strategy implementation in commercial state corporations in Kenya was rejected.

4.7 Performance Monitoring and Reporting and Strategy Implementation

This section provides results of an analysis for independent variable performance monitoring and reporting in commercial state corporations. The study sought to assess the role of performance monitoring and reporting on strategy implementation in commercial state corporations in Kenya.

4.7.1 Descriptive Analysis

A 5 point Likert scale was used to measure performance monitoring and reporting. The results are as indicated in table 4.10 below. Performance monitoring and reporting were measured by 10 indicators in the Likert scale. The respondents were required to indicate the extent to which they agree with the provided statement depicting the relationship between performance monitoring and reporting in performance contracting and strategy implementation. But first, they were required to give their opinion on whether performance monitoring and reporting influence strategy implementation, of which 100% of the respondents indicated performance planning in their opinion influences strategy implementation.

Table 4.10: Performance monitoring and reporting and strategy implementation descriptive analysis

Indicator	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
The organization have an adequate performance measurement system for strategy implementation	0	1.7	35.6	58.3	4.4
The organization strategy implementation monitoring and reporting is automated	0	6.1	46.1	42.2	5.6
Monitoring and reporting of strategic objectives implementation is carried out	0	5.1	44.1	45.2	5.6
Measurement of utilization of resources in strategy implementation is carried out	0.6	6.9	39.4	46.3	6.9
Top management hold leaders accountable for monitoring and reporting of progress of strategy implementation	0.6	6.7	31.7	51.7	9.4
Analysis and verification of objective evidence for strategy implementation	0.6	8.4	27.5	56.2	7.3
Acquisition of a computer program for monitoring implementation of a strategic plan	1.7	3.9	32.4	55.9	6.1
Analysis of utilization of resources is carried out during strategy implementation performance reviews	0	4.0	31.1	57.1	7.9
Employees are rewarded for their performance on strategic plan implementation	0.6	4.0	33.5	55.7	6.3
Distribution of strategy implementation progress reports to all employees	0.6	4.1	27.8	63.9	3.6

As shown in table 4.10 above, 58.3% of the respondents agreed that performance contracting assist the organization to have an adequate performance measurement system for strategy implementation. But 35.6% of the respondents were not sure about it. Therefore, most state corporations do not have an adequate performance measurement

system for strategy implementation. Forty two point two of the respondents agreed that Performance contracting ensures the organization strategy implementation monitoring and reporting is automated. And the highest percentage (46.1%) of the respondents were not sure performance contracting ensures monitoring and reporting of strategy implementation is automated. Automation of monitoring and reporting on strategy implementations, therefore, need to be given more emphasis as form the responses, a majority of state corporations have not been considering it.

In addition, 45.2% of the respondents agreed that performance contracting ensures monitoring and reporting of strategic objectives implementation is carried out. And 44.1% of the respondents were not sure performance contracting ensures monitoring and reporting of strategy implementation are carried out. Monitoring and reporting of strategic objectives implementation need are also not carried out by the majority of state corporations. Similarly, 46.3% of the respondents agreed that performance contracting enhances measurement of utilization of resources in strategy implementation is carried out. And the 39.4% of the respondents were not sure performance contracting enhances measurement of utilization of resources in strategy implementation is carried out. Additionally, 51.7% of the respondents agreed that performance contracting ensures top management hold leaders accountable for monitoring and reporting of progress of strategy implementation. While 31.7% of the respondents were not sure that performance contracting ensures top management hold leaders accountable for monitoring and reporting of progress of strategy implementation.

The study findings also show that 56.2% of the respondents agreed that performance contracting enhances analysis and verification of objective evidence for strategy implementation, while, 27.5% of the respondents were not sure performance contracting enhances analysis and verification of objective evidence for strategy implementation. Furthermore, 55.9% of the respondents agreed that performance contracting would enhance acquisition of a computer program for monitoring implementation of strategic plan, while 32.4% of the respondents were not sure if performance contracting would

enhance acquisition of a computer program for monitoring implementation of strategic plan. Similarly, 57.1% of the respondents agreed that performance contracting ensures analysis of utilization of resources is carried out during strategy implementation performance reviews, while, 31.1% of the respondents were not sure if performance contracting ensures analysis of utilization of resources is carried out during strategy implementation performance reviews.

In addition, the study findings also show that 55.7% of the respondents agreed that performance contracting ensures employees are rewarded for their performance on strategic plan implementation, while, 33.5% of the respondents were not sure if performance contracting ensures employees are rewarded for their performance on strategic plan implementation. Similarly, 63.9% of the respondents agreed that performance contracting enhances distribution of strategy implementation progress reports to all employees, while, 27.8% of the respondents were not sure if performance contracting enhances distribution of strategy implementation progress reports to all employees.

These findings agree with the findings by Cocca *et al.* (2010) who stated that for effective performance management, the system needs to be dynamic and fluid to respond to changing business circumstances so that performance measures always remain relevant. Chubb *et al.* (2011) also concluded that performance management and appraisal schemes need to be adequately coordinated and monitored. 'In addition to evaluating employees on a regular basis, organizations should also assess the effectiveness of the appraisal system periodically' (Schraeder *et al.*, 2007). Rees and Porter (2004) argued that the role of HR needs to be emphasized in coordinating and facilitating the process. According to Wolff (2005), the Civil Aviation Authority recommended that the appraisal process should be regularly reviewed and adjusted if necessary, but warned against continually changing the scheme. The researchers, however, noted that few organizations often have the processes in place for monitoring their systems, which concurs with the findings of this study.

These findings, therefore, implies that most state corporations do not have an adequate performance measurement system for strategy implementation. Also, automation of monitoring and reporting on strategy implementations, therefore, need to be given more emphasis as form the responses, a majority of state corporations have not been considering it. Lastly, monitoring and reporting of strategic objectives implementation are also not carried out by majority of the commercial state corporations.

4.7.2 Performance Monitoring and Reporting and Strategy Implementation Sample Adequacy and Validity Test

This section presents a diagnostic analysis of data on the adequacy of sample and validity for purposes of carrying out principal component and regression. The results of the analysis for sample adequacy using the KMO statistic and validity test using Bartlett's test of sphericity are as shown in table 4.11 below. The KMO statistic varies between 0 and 1. A value of 0 indicates that the sum of partial correlations is large relative to the sum of correlations, indicating diffusion in the pattern of correlations (hence, factor analysis is likely to be inappropriate). A value close to 1 indicates that patterns of correlations are relatively compact and so factor analysis should yield distinct and reliable factors (Field, 2009). Kaiser (1974) recommends accepting values greater than 0.5 as barely acceptable. According to Hutcheson and Sofroniou (1999), values between 0.5 and 0.7 are mediocre, values between 0.7 and 0.8 are good, values between 0.8 and 0.9 are great and values above 0.9 are superb. KMO test result for this variable was 0.753 which was above 0.5 indicating the adequacy of the sample size.

Table 4.11: Performance monitoring and reporting and strategy implementation sample adequacy and validity test

Test	Result
KMO Measure of Sampling Adequacy	0.753
Bartlett's Test of Sphericity; Sig.	0.000

4.7.3 Performance Monitoring and Reporting and Strategy Implementation Principal Component Analysis and Multicollinearity Test

On carrying out the principal component analysis, one factor was extracted with loadings over 0.5 composed of 6 variables. Composite scores for the factors was then carried out using the data reduction procedure in SPSS and a single regression factor computed for the one factor. Linear regression on factor component scores was carried as the data was categorical. The factor was then regressed on the dependent variable generating the following output. The role of performance monitoring and reporting on strategy implementation was determined by carrying out a regression analysis between the dependent variable strategy implementation and the independent variable, the role of performance monitoring and reporting. On running a correlation matrix, there was no multicollinearity in the data as there are no substantial correlations ($r > .9$) between predictors.

4.7.4 Performance Monitoring and Reporting and Strategy Implementation Model Summary and Hypothesis Testing

The regression model was fit as indicated in the model summary, table 4.12 below. The proportion of the variance explained by the model is 0.438 ($R=0.438$). The improvement of the model on adding independent variable is good as R^2 changes to 0.191; this change is significant as the Sig. F change (0.000) is less than 0.05 at 95% confidence level. The

model is a significant fit of the data overall, as the sig =0.000 in the ANOVA table below at 95% confidence level. Finally, the assumption that errors in the regression are independent has been met; this as the Durbin–Watson statistic (2.034) is close to 2 (and between 1 and 3), as recommended by Field (2009).

Table 4.12: Performance monitoring and reporting and strategy implementation model summary and hypothesis testing

R	R Square	R Change	Square	Sig. F Change	Durbin-Watson
0.438	0.191	0.191		.000	2.034

The coefficient (B value=0.414) in table 4.13 below, indicates the contribution of the predictor to the model. The contribution is significant as the sig value is 0.000 at $\alpha=0.05$ is less than the recommended maximum sig. value of 0.05.

Table 4.13: Performance monitoring and reporting and strategy implementation regression coefficients

	Unstandardized Coefficients (B)	t	Sig. (95% confidence interval)
Constant	0.012		
Regression factor	0.414	5.331	0.000

Therefore, the null hypothesis H_{03} : Performance monitoring and reporting have no significant influence on strategy implementation in commercial state corporations in Kenya was rejected.

4.8 Moderating Effect of Policies and Regulations Compliance on Strategy Implementation

This section provides results of an analysis for the moderating variable, policies, and regulations on the relationship between performance contracting and strategy implementation in commercial state corporations. The study sought to assess the moderating effect of policies and regulations compliance on the relationship between performance contracting and strategy implementation in commercial state corporations in Kenya.

4.8.1 Policies and Regulations Compliance and Strategy Implementation Descriptive Analysis

A 5 point Likert scale was used to measure policies and regulations compliance. The results are as indicated in table 4.14 below. Policies and regulations compliance were measured by 10 indicators in the Likert scale. The respondents were required to indicate the extent to which they agree with the provided statement depicting the relationship between performance planning in performance contracting and strategy implementation. But first, they were required to give their opinion on whether policies and regulations compliance moderate the role of performance contracting on strategy implementation, of which 99.3% of the respondents indicated they moderate.

Table 4.14: Policies and Regulations Compliance and Strategy Implementation Descriptive Analysis

Indicator	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
The organization receives policies and regulations circulars from the government	0	1.1	4.5	88.8	5.6
The policies and regulations received from the government are considered in strategy implementation	0	1.1	6.2	84.3	8.4
The policies and regulations from the government are considered in organizational strategic objectives setting	0	0.6	8.5	83.5	7.4
Political views are incorporated in policies and regulations for strategy implementation	0	0.6	20.5	67.6	11.4
The organization has a mechanism for regularly updating itself on government policies and regulations	0.6	1.7	30.5	59.9	7.3
The organization is consulted in the formulation of government policies and regulations	0.6	1.7	16.7	74.7	6.3
Government policies and regulations are considered in organization leadership for strategy implementation	0	0	12.9	78.1	9.0
Government policies and regulations are considered in staffing levels for strategy implementation	0	1.1	18.6	74.6	5.6
Government policies and regulations are considered in the acquisition of competent staff from the job market for strategy implementation	0	2.3	10.2	78.5	9.0
Government policies and regulation particularly on procurement are considered in acquisition and deployment of resources which affect strategy implementation	0	0	12.4	80.2	7.3

As shown in table 4.14 above, 88.8% of the respondents agreed that the organization receives policy circulars from the government and they are considered in strategy implementation. Some state corporations do not receive the policy circulars from the government, they should, therefore, have mechanisms for updating themselves on the released government circulars. Eighty four point three percent of the respondents agreed that the policies and regulations received from the government affect strategy implementation. The effect of the policies and regulations received from the government on the strategy implementation should be analyzed when they are received. In addition, 83.5% of the respondents agreed that the policies and regulations from the government affect organizational strategic objectives. Furthermore, 67.6% of the respondents agreed that politics influences policies and regulations which in turn affect strategy implementation.

The study findings also indicated that 59.9% of the respondents agreed that the organization has a mechanism for regularly updating itself on government policies and regulations which affect strategy implementation, while, 30.5% were not aware if the organization has a mechanism for regularly updating itself on government policies and regulations which affect strategy implementation. Similarly, 74.7% of the respondents agreed that the organization is consulted in the formulation of government policies and regulations that affect the organization business environment and strategy implementation, while, 16.7% were not aware if the organization is consulted in the formulation of government policies and regulations that affects the organization business environment and strategy implementation. Additionally, 78.1% of the respondents agreed and 9% strongly agreed that Government policies and regulations affect the organization leadership which in turn affects strategy implementation, while, 12.9% were not aware if Government policies and regulations affect the organization leadership which in turn affects strategy implementation.

In addition, the study findings indicate that 74.6% of the respondents agreed that Government policies and regulations affect staffing levels which have an effect on

strategy implementation, while, 18.6% were not aware if Government policies and regulations affect staffing levels which have an effect on strategy implementation. Also, 78.5% of the respondents agreed that Government policies and regulations affect the acquisition of competent staff from the job market which affects strategy implementation, while, 10.2% were not aware if Government policies and regulations affect the acquisition of competent staff from the job market which affects strategy implementation. Similarly, 80.2% of the respondents agreed that Government policies and regulation particularly on procurement affect acquisition and deployment of resources which affect strategy implementation, while, 12.4% were not aware if Government policies and regulation particularly on procurement affect acquisition and deployment of resources which affect strategy implementation.

These findings concur with the results of previous studies. In general, the studies suggest that there is evidence of a statistically significant and positive relationship between regulatory policy and governance and economic growth; while regulatory governance and the institutional framework in a country can mitigate the damaging impacts of particular regulatory policies (e.g. product and labor market regulation) on economic growth. One of the studies, by Gorgens *et al.* (2003) estimates that a heavily regulated economy might grow on average by about 2% to 3% less per annum than less heavily regulated ones, although this effect is mainly in terms of comparisons between moderately and highly regulated countries. In their studies, Jacobzone *et al.* (2010) and Loayza *et al.* (2004) found a negative causal relationship between economic growth and overall regulation and separate product market and labor regulation.

These findings imply that policy and regulations are important and the effect of the policies and regulations received from the government on the strategy implementation should be analyzed when they are received. Also, some state corporations do not receive the policy circulars from the government, they should, therefore, have mechanisms for updating themselves on the released government circulars.

4.8.2 Policies and Regulations Compliance and Strategy Implementation Sample Adequacy and Validity Test

This section presents a diagnostic analysis of data on the adequacy of sample and validity for purposes of carrying out principal component and regression. The results of the analysis for sample adequacy using the KMO statistic and validity test using Bartlett's test of sphericity are as shown in table 4.15 below. The KMO statistic varies between 0 and 1. A value of 0 indicates that the sum of partial correlations is large relative to the sum of correlations, indicating diffusion in the pattern of correlations (hence, factor analysis is likely to be inappropriate). A value close to 1 indicates that patterns of correlations are relatively compact and so factor analysis should yield distinct and reliable factors (Field, 2009). Kaiser (1974) recommends accepting values greater than 0.5 as barely acceptable. According to Hutcheson and Sofroniou (1999), values between 0.5 and 0.7 are mediocre, values between 0.7 and 0.8 are good, values between 0.8 and 0.9 are great and values above 0.9 are superb. KMO test result for this variable was 0.712 which was above 0.5 indicating the adequacy of the sample size.

Table 4.15: Policies and regulations compliance and strategy implementation sample adequacy and validity test

Test	Result
KMO Measure of Sampling Adequacy	0.712
Bartlett's Test of Sphericity; Sig.	0.000

4.8.3 Policies and Regulation Compliance and Strategy Implementation Principal Component Analysis and Multicollinearity Test

On carrying out the principal component analysis, one factor was extracted with loadings over 0.5 composed of 5 variables. Composite scores for the factors was then

carried out using the data reduction procedure in SPSS and a single regression factor computed for the one factor. Linear regression on factor component scores was carried as the data was categorical. The factor was then regressed on the dependent variable generating the following output.

The moderating role of policy and regulations on the relationship between performance contracting and strategy implementation was determined by carrying out a regression analysis between the dependent variable strategy implementation and the moderating variable policy and regulations. On running a correlation matrix, there was no multicollinearity in the data as there are no substantial correlations ($r > .9$) between predictors.

4.8.4 Policies and Regulations Compliance and Strategy Implementation Model Summary and Hypothesis Testing

The regression model is fit as indicated in the Model Summary, table 4.16 below, and ANOVA table below. The proportion of the variance explained by the model is 0.278 ($R=0.278$). The improvement of the model on adding independent variable is good as R^2 changes to 0.078; this change is significant as the Sig. F change (0.001) is less than 0.05 at 95% confidence level. The model is a significant fit of the data overall, as the sig =0.001 in the ANOVA table below at 95% confidence level. Finally, the assumption that errors in the regression are independent has been met; this as the Durbin–Watson statistic (2.133) is close to 2 (and between 1 and 3), as recommended by Field (2009).

Table 4.16: Policies and regulations compliance and strategy implementation model summary and hypothesis testing

R	R Square	R Change	Square	Sig. F Change	Durbin-Watson
0.27	0.078	0.078		.001	2.133

The coefficient (B value=0.260) in the table 4.17 below indicates the contribution of the predictor to the model. The contribution is significant as the sig value is 0.001 at $\alpha=0.05$ is less than the recommended maximum sig. value of 0.05. Therefore, the null hypothesis H_{04} : Policies and regulations compliance have no significant moderating influence on the relationship between performance contracting and strategy implementation in commercial state corporations in Kenya was rejected.

Table 4.17: Policies and regulations compliance and strategy implementation regression coefficients

	Unstandardized Coefficients (B)	t	Sig. (95% confidence interval)
Constant	-0.010		
Regression factor	0.260	3.266	0.001

4.9 Strategy Implementation Resource Allocation and Adequacy

This section provides results of an analysis for dependent variable resource allocation and adequacy as a measure of strategy implementation in commercial state corporations. The study sought to assess the role of performance planning on strategy implementation in commercial state corporations in Kenya.

4.9.1 Descriptive Analysis

A 5 point Likert scale was used to measure resource allocation and deployment, and the results are as indicated in table 4.18 below. Resource allocation and deployment was measured by 10 indicators in the Likert scale. The respondents were required to indicate the extent to which they agree with the provided statement depicting the relationship between performance planning in performance contracting and strategy implementation. But first, they were required to give their opinion on whether performance contracting

influence strategy implementation, of which 99.3% of the respondents indicated performance contracting in their opinion influences strategy implementation.

Table 4.18: Resource allocation and deployment descriptive analysis

Indicator	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
The organization allocates sufficient financial resources for strategy implementation	0	0.6	5.6	88.8	5.0
Leaders align organizational resources with strategic objectives	0	0	4.5	85.8	9.7
Leaders define strategy implementation tasks and activities into details	0	0	15.1	77.7	7.3
There is timely deployment of financial resources for strategy implementation	0	1.1	25.9	63.2	9.8
The organization has competent staff for strategy implementation	0	1.1	32.2	60.3	6.3
The organization has adequate staff for strategy implementation	0	1.7	26.3	64.0	8.0
Leaders engage all employees in strategy implementation	0	2.4	21.2	67.1	9.4
Acquisition of adequate resources for strategy implementation	0	1.7	21.8	70.1	6.3
Mobilization of resources for strategy implementation	0	1.2	19.8	73.7	5.4
Deployment of adequate resources for strategy implementation	0.6	2.5	12.1	78.3	6.4

As shown in table 4.18 above, 88.8% of the respondents agreed that performance contracting assist the organization to allocate sufficient financial resources for strategy implementation. Eighty five point eight percent of the respondents agreed that performance contracting enhance leaders to align organizational resources with strategic objectives. Additionally, 77.7% of the respondents agreed that performance contracting enhances leaders to define strategy implementation tasks and activities into details. And, 63.9% of the respondents agreed that performance contracting enhance timely deployment of financial resources for strategy implementation, while, 25.9% of respondents were not sure if performance contracting enhances timely deployment of financial resources for strategy implementation. Furthermore, 60.3% of the respondents agreed that performance contracting ensures that the organization has competent staff for strategy implementation, while, 32.2% of respondents were not sure if performance contracting ensures the organization has competent staff for strategy implementation.

The findings also show that 64.0% of the respondents agreed that performance contracting enhance the organization has adequate staff for strategy implementation, while, 26.3% of respondents were not sure if performance contracting enhances the organization to have adequate staff for strategy implementation. Similarly, 67.1% of the valid respondents agreed that performance contracting enhances leaders to engage all employees in strategy implementation, while, 21.2% of respondents were not sure if performance contracting enhances leaders to engage all employees in strategy implementation. Seventy point one percent of the respondents agreed that performance contracting enhances acquisition of adequate resources for strategy implementation, while, 21.8% of respondents were not sure if performance contracting enhances acquisition of adequate resources for strategy implementation.

Similarly, the findings indicate that 73.7% of the respondents agreed that performance contracting enhances mobilization of resources for strategy implementation, while, 19.8% of respondents were not sure if performance contracting enhances mobilization of resources for strategy implementation. Lastly, 78.3% of the respondents agreed that

performance contracting enhances deployment of adequate resources for strategy implementation, while, 12.1% of respondents were not sure if performance contracting enhances deployment of adequate resources for strategy implementation.

The findings were in agreement with those by Simiyu (2012) who indicated that organizations require financial resources, and that, for performance contracting to be well implemented, the financial resources should be adequate to allow budgeting for targets. The funds should also be remitted by the beginning of financial year. Kamar and Ongo'ndo (2007) indicated that insufficient allocation of financial resources due to financial constraints and mixed government priorities slow down the introduction of reforms. Material resources inform of equipment and infrastructure should also be adequate for performance contracting target achievement. According to Lienert (2003), there is also a perennial problem of shortage of financial and material resources that are necessary for service delivery.

4.9.2 Resource Allocation and Deployment Sample Adequacy and Validity Test

This section presents a diagnostic analysis of data on the adequacy of sample and validity for purposes of carrying out principal component and regression. The results of the analysis for sample adequacy using the KMO statistic and validity test using Bartlett's test of sphericity are as shown in table 4.19 below. The KMO statistic varies between 0 and 1. A value of 0 indicates that the sum of partial correlations is large relative to the sum of correlations, indicating diffusion in the pattern of correlations (hence, factor analysis is likely to be inappropriate). A value close to 1 indicates that patterns of correlations are relatively compact and so factor analysis should yield distinct and reliable factors (Field, 2009). Kaiser (1974) recommends accepting values greater than 0.5 as barely acceptable. According to Hutcheson and Sofroniou (1999), values between 0.5 and 0.7 are mediocre, values between 0.7 and 0.8 are good, values between 0.8 and 0.9 are great and values above 0.9 are superb. KMO test result for this variable was 0.651 which was above 0.5 indicating the adequacy of the sample size.

Table 4.19: Resource allocation and deployment sample adequacy and validity test

Test	Result
KMO Measure of Sampling Adequacy	0.741
Bartlett's Test of Sphericity; Sig.	0.000

4.9.3 Resource Allocation and Deployment of Principal Component Analysis and Multicollinearity Test

On carrying out the principal component analysis, one factor was extracted with loadings over 0.5 composed of all 10 variables. Composite scores for the factors was then carried out using the data reduction procedure in SPSS and a single regression factor computed for the one factor. Linear regression on factor component scores was carried as the data was categorical. This factor was used as the dependent variable and regressed with the four independent variables composite factor scores generating the following output. The role of performance contracting on strategy implementation was determined by carrying out a regression analysis between the dependent variable strategy implementation and the independent variables. On running a correlation matrix, there was no multicollinearity in the data as there are no substantial correlations ($r > .9$) between indicators.

CHAPTER FIVE

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Introduction

This chapter provides the summary, conclusions, and recommendations based on the findings from the four research objectives.

5.2 The Summary of Research Findings

This section provides a summary of the research findings.

5.2.1 Role of Performance Target Setting on Strategy Implementation in Commercial State Corporations in Kenya

A principal component analysis was carried out to get composite factor scores. On carrying out the principal component analysis, one factor was extracted with loadings over 0.5 accounting for 4 variables. Composite scores for the factors was then carried out using the data reduction procedure in SPSS and a single regression factor computed for the one factor. Linear regression on factor component scores was carried as the data was categorical. The factor was then regressed on the dependent variable.

The role of performance target setting on strategy implementation was determined by carrying out a regression analysis between the dependent variable strategy implementation and the independent variable, role of performance target setting. On running a correlation matrix, there was no multicollinearity in the data as there were no substantial correlations between predictors.

On running the regression analysis, the proportion of the variance was explained by the model. The improvement of the model on adding independent variable was not good as R^2 changes were not significant at ninety-five percent confidence level. Finally, the assumption that errors in the regression are independent was met.

The contribution of the predictor was insignificant. Therefore the null hypothesis H_{01} : Performance target setting has no significant influence on strategy implementation in commercial state corporations in Kenya was accepted.

5.2.2 Role of Performance Planning on Strategy Implementation in Commercial State Corporations in Kenya

A principal component analysis was carried out to get factor scores for regression analysis as the data was categorical. On carrying out the principal component analysis, one factor was extracted with loadings over 0.5 composed of 5 variables. Composite scores for the factors was then carried out using the data reduction procedure in SPSS and a single regression factor computed for the one factor. Linear regression on factor component scores was carried as the data was categorical. The factor was then regressed on the dependent variable.

The role of performance planning on strategy implementation was determined by carrying out a regression analysis between the dependent variable strategy implementation, and the independent variable, the role of performance planning on strategy implementation. On running a correlation matrix, there was no multicollinearity in the data as there are no substantial correlations between predictors.

The improvement of the model on adding independent variable was good as R^2 change the change was significant. The model was a significant fit of the data overall. Finally, the assumption that errors in the regression are independent was met.

The contribution of the independent variable was significant. Therefore the null hypothesis H_{02} : Performance planning has no significant influence on strategy implementation in commercial state corporations in Kenya was rejected.

5.2.3 Role of Performance Monitoring and Reporting on Strategy Implementation in Commercial State Corporations in Kenya

A principal component analysis was carried out to get factor scores for regression analysis as the data was categorical. On carrying out the principal component analysis, one factor was extracted with loadings over 0.5 composed of 6 variables. Composite scores for the factors was then carried out using the data reduction procedure in SPSS and a single regression factor computed for the one factor. Linear regression on factor component scores was carried as the data was categorical. The factor was then regressed on the dependent variable.

The role of performance monitoring and reporting on strategy implementation was determined by carrying out a regression analysis between the dependent variable strategy implementation and the independent variable, the role of performance monitoring and reporting. On running a correlation matrix, there was no multicollinearity in the data as there are no substantial correlations between predictors.

The improvement of the model on adding independent variable is good as R^2 changed was significant. The model was a significant fit of the data. Finally, the assumption that errors in the regression are independent was met. The coefficient B value indicated the contribution of the predictor to the model was significant. Therefore the null hypothesis H_{03} : Performance monitoring and reporting have no significant influence on strategy implementation in commercial state corporations in Kenya was rejected.

5.2.4 Moderating Effect of Policies and Regulations Compliance on the Relationship between Performance Contracting and Strategy Implementation in Commercial State Corporations in Kenya

The principal component analysis was carried out to get factor scores for regression analysis as the data was categorical. On carrying out the principal component analysis, one factor was extracted with loadings over 0.5 composed of 5 variables. Composite

scores analysis for the factors was then carried out using the data reduction procedure in SPSS and a single regression factor computed for the one factor.

Linear regression on factor component scores was carried as the data was categorical. The factor was then regressed on the dependent variable. The moderating role of policy and regulations on the relationship between performance contracting and strategy implementation was determined by carrying out a regression analysis between the dependent variable strategy implementation and the moderating variable policy and regulations. On running a correlation matrix, there was no multicollinearity in the data as there were no substantial correlations between predictors. The improvement of the model on adding independent variable was good as R^2 changed was significant. The model was a significant fit of the data overall. Finally, the assumption that errors in the regression are independent was met. The coefficient B value indicated the contribution of the predictor to the model was significant. Therefore the null hypothesis H₀₄: Policies and regulations compliance have no significant moderating influence on the relationship between performance contracting and strategy implementation in commercial state corporations in Kenya was rejected.

5.2.5 Role of Performance Contracting on Strategy Implementation in Commercial State Corporations in Kenya

A principal component analysis was carried out to get factor scores for regression analysis as the data was categorical. On carrying out the principal component analysis, one factor was extracted with loadings over 0.5 which composed of all 10 variables. Composite scores analysis for the factors was then carried out using the data reduction procedure in SPSS and a single regression factor computed for the one factor. Multiple Linear regression on factor component scores was carried as the data was categorical. This factor was used as the dependent variable and regressed with the four independent variables composite factor scores. The role of performance contracting on strategy implementation was determined by carrying out a regression analysis between the dependent variable strategy implementation and the independent variables. On running a

correlation matrix, there was no multicollinearity in the data as there are no substantial correlations between predictors.

The improvement of the model on adding independent variable was good as R^2 change was significant. The model was a significant fit of the data overall. Finally, the assumption that errors in the regression are independent was met.

5.3 The Conclusions of Research Findings

This section provides conclusions arrived at from analysis of the research findings against the research objectives.

5.3.1 Role of Performance Target Setting on Strategy Implementation in Commercial State Corporations in Kenya

The first objective was to assess the role of performance target setting on strategy implementation in commercial state corporations in Kenya. Participation of staff in target setting and relaying of information to staff during target setting have no significant role in strategy implementation. The participation of staff and relaying of information does not significantly influence the adequacy of resources and timeliness of resource deployment for strategy implementation. Performance contracting enhance active staff participation in target setting which in turn enhances strategy implementation. A substantial proportion of top management is not involved in target setting, and this affects strategy implementation. A significant staff were of the opinion that there is no bottom up and top down flow of information when setting performance targets. The staff are not informed of strategic objectives when setting targets as a large number were not aware of the information to have been passed on to them.

The study concluded that even though from the opinion of the respondents' performance target setting has a role in strategy implementation, the role of performance target setting on strategy implementation was not statistically significant.

5.3.2 Role of Performance Planning on Strategy Implementation in Commercial State Corporations in Kenya

The second study objective was to evaluate the role of performance planning on strategy implementation in commercial state corporations in Kenya. Performance planning has a significant role in strategy implementation. From the findings of the study, consideration of organizational capabilities and competencies when developing performance contract assists in strategy implementation. The majority supported the view that performance planning influences strategy implementation. Performance contracting enhances capabilities and competencies of staff by ensuring they are trained on performance planning. It also enhances planning capabilities by ensuring the development of standardized work plans. Adequate staffing for strategy implementation is also enhanced. The performance planning also enhances the hiring of competent staff to support the operationalization of strategy through performance contracting. Competence of staff is also considered in performance planning and strategy implementation. Adequacy of resources for strategy implementation is also ensured during performance planning. Performance contracting also ensures the competence of managers particularly on their skills performance coaching, giving timely and actionable feedback for performance plans and strategy implementation. This largely enhances the role of the performance contracting in strategy implementation.

The study concluded that the role of performance planning on strategy implementation was statistically significant, and the null hypothesis was rejected.

5.3.3 Role of Performance Monitoring and Reporting on Strategy Implementation in Commercial State Corporations in Kenya

The third objective was to investigate the role of performance monitoring and reporting on strategy implementation in commercial state corporations in Kenya. Performance monitoring and reporting have a role in strategy implementation in commercial state corporations. Through performance contracting, state corporations are able to have an

adequate performance measurement system for strategy implementation. Enhancement of automation of strategy implementation performance monitoring and reporting is not facilitated by performance contracting. On ensuring strategy implementation monitoring and reporting is carried out, the majority did not agree that performance contracting enhances it. Performance contracting to a large extent also does not enhance measurement and analysis of utilization of resources in strategy implementation. To a large extent also performance contracting does not enhance analysis and verification of objective evidence for strategy implementation. Also on the enhancement of acquisition of resources such as a computer program for monitoring and reporting of strategy implementation, the majority were of the view that it is not facilitated by performance contracting.

The study concluded that the influence of performance monitoring and reporting on strategy implementation was statistically significant, and the null hypothesis was rejected.

5.3.4 Moderating Effect of Policies and Regulations Compliance on the Relationship between Performance Contracting and Strategy Implementation in Commercial State Corporations in Kenya

The fourth objective of the study was to determine the moderating effect of policies and regulations compliance on the relationship between performance contracting and strategy implementation in commercial state corporations in Kenya. Government policies and regulations compliance have an influence on the relationship between performance contracting and strategy implementation. State corporations receive circulars on policies from the government and the policies have an influence on strategy implementation. The policies and regulations compliance affect the organizations' strategic objectives, and they also affect strategy implementation. Many state corporations do not have a system for updating themselves on government policies and regulations that affect their strategy implementation. Some state corporations are not consulted or involved when policies and regulations that affect their operations are being

developed by the government. The government policies and regulation affects resource provision for strategy implementation, some being the staffing levels, this, in turn, affects strategy implementation. Acquisition of competent staff for strategy implementation is also affected by the government policies and regulations, particularly on freezing of employment. Government policies and regulations, particularly on procurement affect the timely deployment of resources for strategy implementation.

The study concluded that the moderating influence of policy and regulations on the relationship between performance contracting and strategy implementation was statistically significant, and the null hypothesis was rejected.

5.4 The Research Recommendations

The government of Kenya should adopt the following recommendations arising from the findings and conclusions of the research at policy formulation level, and the state corporations at both policy formulation and operations level, so as to facilitate strategy implementation using performance contracting.

5.4.1 Performance Target Setting and Strategy Implementation

In performance target setting: Encourage active participation of staff in target setting. Relay information on a strategy to staff during target setting. Enhance consideration of the adequacy of resources and timeliness of resource deployment for strategy implementation during target setting. Involve top management in target setting as this affects strategy implementation. Enhance both bottom-up and top-down flow of information when setting performance targets. Inform staff of strategic objectives when setting targets and ensure they form part of performance contract objectives.

5.4.2 Performance Planning and Strategy Implementation

In performance planning: There should be consideration of organizational capabilities and competencies when planning for performance as this assists in strategy

implementation. Ensure staff are trained in performance planning to enhance their capabilities and competencies. Develop standardized work plans to enhance performance planning capabilities. Ensure there is adequate staffing for strategy implementation. Enhance hiring of competent staff in performance planning to support the operationalization of strategy through performance contracting. Ensure staff competence is considered in performance planning and strategy implementation. Ensure the adequacy of resources for strategy implementation is also considered during performance planning. Ensures competency of managers particularly skills on performance coaching, giving timely and actionable feedback for performance plans and strategy implementation is enhanced.

5.4.3 Performance Monitoring and Reporting and Strategy Implementation

In performance monitoring and reporting: State corporations should have adequate performance measurement system for strategy implementation. Enhance automation of strategy implementation performance monitoring and reporting through performance contracting. Ensure strategy implementation monitoring and reporting is carried out in performance contracting. Enhance measurement and analysis of utilization of strategy implementation resources in performance contracting. Enhance analysis and verification of strategy implementation objective evidence in performance contracting processes. Enhance acquisition of resources such as a computer program for monitoring and reporting of strategy implementation progress.

5.4.4 Government Policies and Regulations Compliance and Strategy Implementation

On government policies and regulations compliance: State corporations should have a mechanism updating themselves and acquiring circulars on policies and regulations from the government that affects their operations and strategy implementation. State corporations should devise a mechanism for ensuring their involvement when policies and regulations that affect their operations are being developed by the government. The

state corporations should lobby for the acquisition of competent staff for strategy implementation even when government policies and regulations, particularly on freezing of employment affect their staffing levels. State corporations should work with relevant government agencies in the formulation of policies, particularly on procurement that affects timely acquisition and deployment of resources for strategy implementation. The effect of the policies and regulations received from the government on the strategy implementation should be analyzed when they are received and mitigating or corrective measures put in place, including revising some of the strategic objectives.

The Kenya government should use the results of the study to guide in enhancing the policy on performance contracting to include a target setting, monitoring and review framework or matrix. State corporations should develop a matrix for the alignment of objectives from the strategic plan, performance contract, mandate, country strategies, and any other when planning for Performance contracting and strategy implementation. Of importance, the matrix should have a column indicating the goal and its source (for example from Strategic plan, Performance contract, etc). The matrix should have columns indicating also the resources required for the achievement of the objectives. Who is responsible for each objective, how results will be measured, when the objective will be completed, and how the results will be evaluated and when they will be evaluated.

5.5 Areas of Further Research

The following areas related to this study are recommended for further research to generate more information and knowledge on performance contracting and strategy implementation. Monitoring and evaluation activities in strategy implementation and how they enhance successful strategy implementation. How automation affects strategy implementation. Politics and organizational culture and how they affect strategy implementation. How performance contracting contributes to the implementation of country strategies (e.g. Kenya Vision 2030, SDGs, Agenda 2063, Big 4 Agenda, etc).

And the risk management activities undertaken by state corporations and how they aid in the realization of set strategies.

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APPENDICES

Appendix I: Questionnaire

Ref; Role of Performance Contracting in Strategy Implementation in Commercial State Corporations in Kenya.

Public institutions are met with different goals and objectives and performance targets arising from the various tools that govern their operations in a bid to better serve their clients. In this regard, they are required to have a strategic plan in place, fulfill the mandate spelled out in Acts of Parliament that create them, and implement a performance contract to better manage performance and hence effective service delivery. It is on this basis that I am conducting a research on “Role of Performance Contracting in Strategy Implementation in Commercial State Corporations in Kenya”. Attached to this letter is a survey questionnaire for this purpose. Please complete the questionnaire to the best of your knowledge.

This research is carried out in partial fulfillment of the requirements of an award of Doctor of Philosophy Degree in Business Administration of Jomo Kenyatta University of Agriculture and Technology. The information given will help in this study and shall be used for academic purposes only, and shall be treated confidentially. Your cooperation in completing the questionnaire will be highly appreciated. Thank you in advance.

Please tick where appropriate.

PART A: Respondent Information

Please tick in the appropriate boxes to answer the questions below;

1. What is your gender?

Male	
Female	

2. What is your age bracket?

Below 30 Years	
31-40 Years	
41-50 Years	
51-60 Years	
Above 60 Years	

3. What is your highest level of education?

Secondary-O level/A level	
Diploma	
Higher National Diploma	
Bachelors Degree	
Masters Degree	
Ph.D. Degree	

Any Other (Please specify)

4. What is your current position in the organization?

In charge Corporate Planning or equivalent	
Head of Department/Section/Division	
Other (please specify)	

5. For how long have you worked in the organization?

Less than 5 years	
6-10 Years	
11-15 Years	
16-20 Years	
Above 20 Years	

PART B:

Section 1: Role of performance target setting on strategy implementation

1. In your opinion does performance target setting influence strategy implementation?

Yes

No

2. The following statements demonstrate the relationship between target setting and strategy implementation. Please tick the extent to which you agree with each of the attributes; where:

5. Strongly Agree (SA)

4. Agree (A)

3. Neutral (N)

2. Disagree (D)

1. Strongly Disagree (SD)

		SA	A	N	D	SD
		5	4	3	2	1
i.	Active staff participation in performance target setting					
ii.	Individual employees derive performance targets from strategic plan					
iii.	Aligning performance contract objectives with strategic plan objectives					
iv.	Top management full involvement in aligning performance contract targets and strategic plan objectives					
v.	Staff training on the alignment of performance targets with strategic plan objectives					

		SA	A	N	D	SD
		5	4	3	2	1
vi.	Enhancement of both up-bottom, and bottom-up information flow when setting performance targets in line with strategic plan objectives					
vii.	cascading of aligned performance contract targets with strategic plan objectives to all employees					
viii.	Staff consideration of strategic plan objectives when setting performance contract targets					
ix.	Informing staff of performance contract targets which are not derived from the strategic plan					
x.	Informing staff of strategic plan objectives not included in the performance contract					

3. Kindly state how else performance target setting influences strategy implementation

i.....

ii.....

iii.....

iv.....

Section II: Role of performance planning on strategy implementation

1. In your opinion performance planning influences strategy implementation

Yes No

2. The following statements demonstrate the relationship between performance planning and strategy implementation. Please tick the extent to which you agree with each of the attributes; where:

5. Strongly Agree (SA)

4. Agree (A)

3. Neutral (N)

2. Disagree (D)

1. Strongly Disagree (SD)

		SA	A	N	D	SD
		5	4	3	2	1
i.	Employees are trained in performance planning so as to implement a strategic plan					
ii.	Capability of employees to plan for implementation of performance contract and strategic plan					
iii.	Development of a standardized work plan format					

		SA	A	N	D	SD
		5	4	3	2	1
iv.	Adequate staffing of the organization for implementation of the strategic plan					
v.	Hiring of competent staff for implementing the organization's strategy					
vi.	Competent Staff involvement in performance planning and strategy implementation					
vii.	Consideration of staff competence in the allocation of work and strategy implementation					
viii.	Regular updating of employees goals to align with business objectives					
ix.	Adequate allocation of resources during performance planning for strategy implementation					
x.	Managers are skilled in performance coaching and give timely, actionable feedback					

3. Kindly state how else performance planning influences strategy implementation

i.....

ii.....

iii.....

iv.....

Section III: Role of performance monitoring and reporting on strategy implementation

1. In your opinion does performance monitoring and reporting influence strategy implementation?

Yes No

2. The following statements demonstrate the relationship between performance monitoring and reporting, and strategy implementation. Please tick the extent to which you agree with each of the attributes; where:

5. Strongly Agree (SA)

4. Agree (A)

3. Neutral (N)

2. Disagree (D)

1. Strongly Disagree (SD)

		SA	A	N	D	SD
		5	4	3	2	1
i.	The organization have an adequate performance measurement system for strategy implementation					
ii.	The organization strategy implementation monitoring and reporting is automated					
iii.	Monitoring and reporting of strategic objectives implementation is carried out					

		SA	A	N	D	SD
		5	4	3	2	1
iv.	Measurement of utilization of resources in strategy implementation is carried out					
v.	Top management hold leaders accountable for monitoring and reporting of progress of strategy implementation					
vi.	Analysis and verification of objective evidence for strategy implementation					
vii.	Acquisition of a computer program for monitoring implementation of a strategic plan					
viii.	Analysis of utilization of resources is carried out during strategy implementation performance reviews					
ix.	Employees are rewarded for their performance on strategic plan implementation					
x.	Distribution of strategy implementation progress reports to all employees					

3. Kindly state how else performance monitoring and reporting can influence strategy implementation

i.....

ii.....

iii.....

iv.....

Section IV: Role of policy and regulations on strategy implementation

1. In your opinion does government policy and regulations influence strategy implementation?

Yes No

2. The following statements demonstrate the relationship between policies and regulation compliance, and strategy implementation. Please tick the extent to which you agree with each of the attributes; where:

5. Strongly Agree (SA)

4. Agree (A)

3. Neutral (N)

2. Disagree (D)

1. Strongly Disagree (SD)

		SA	A	N	D	SD
		5	4	3	2	1
i.	The organization receives policies and regulations circulars from the government					
ii.	The policies and regulations received from the government are considered in strategy implementation					
iii.	The policies and regulations from the government are considered in organizational strategic objectives setting					
iv.	Political views are incorporated in policies and regulations for strategy implementation					

		SA	A	N	D	SD
		5	4	3	2	1
v.	The organization has a mechanism for regularly updating itself on government policies and regulations					
vi.	The organization is consulted in the formulation of government policies and regulations					
vii.	Government policies and regulations are considered in organization leadership for strategy implementation					
viii.	Government policies and regulations are considered in staffing levels for strategy implementation					
ix.	Government policies and regulations are considered in the acquisition of competent staff from the job market for strategy implementation					
x.	Government policies and regulation particularly on procurement are considered in acquisition and deployment of resources which affect strategy implementation					

3. Kindly state how else government policies and regulations compliance can influence strategy implementation

i.....

ii.....

iii.....

iv.....

PART C: Role of performance contracting on strategy implementation

1. In your opinion does performance contracting influence strategy implementation?

Yes No

2. The following statements demonstrate the relationship between performance contracting and strategy implementation. Please tick the extent to which you agree with each of the attributes; where:

5. Strongly Agree (SA)

4. Agree (A)

3. Neutral (N)

2. Disagree (D)

1. Strongly Disagree (SD)

		SA	A	N	D	SD
		5	4	3	2	1
i.	The organization allocates sufficient financial resources for strategy implementation					
ii.	Leaders align organizational resources with strategic objectives					
iii.	Leaders define strategy implementation tasks and activities into details					
iv.	There is timely deployment of financial resources for strategy implementation					
v.	The organization has competent staff for strategy implementation					
vi.	The organization has adequate staff for strategy implementation					

		SA	A	N	D	SD
		5	4	3	2	1
vii.	Leaders engage all employees in strategy implementation					
viii.	Acquisition of adequate resources for strategy implementation					
ix.	Mobilization of resources for strategy implementation					
x.	Deployment of adequate resources for strategy implementation					

3. Kindly state how else performance contracting can influence strategy implementation

i.....

ii.....

iii.....

4. Which performance management tool do you use in your organization? (You may tick more than one)

Performance contract	
Balanced scorecard	
Dashboard	
None	

Any other.....

5. Please state other performance contract related issues affecting strategy implementation in your organization?

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6. What are the major challenges encountered in aligning performance contract with strategy implementation in your organization?

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END

Appendix II: List of Commercial/Manufacturing State Corporations (17-07-2016)

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1.	Agro-Chemicals and Food Company
2.	Chemelil Sugar Company
3.	East African Portland Cement Company
4.	Gilgil Telecommunications Industries
5.	Jomo Kenyatta Foundation
6.	Kenya Airports Authority
7.	Kenya Broadcasting Corporation
8.	Kenya Electricity Generating Company
9.	Kenya Literature Bureau
10.	Kenya Ordinance Factories Corporation
11.	Kenya Pipeline Company
12.	Kenya Ports Authority
13.	Kenya Power and Lighting Company
14.	Kenya Railways Corporation
15.	Kenya Safari Lodges and Hotels
16.	Kenya Seed Company Limited
17.	Kenya Wine Agencies

18.	Kenyatta International Conference Center
19.	National Cereals and Produce Board
20.	National Housing Corporation
21.	National Oil Corporation of Kenya
22.	National Water Conservation and Pipeline Corporation
23.	Numerical Machining Complex
24.	Nzoia Sugar Company
25.	Postal Corporation of Kenya
26.	Pyrethrum Board of Kenya
27.	School Equipment Production Unit
28.	South Nyanza Sugar Company
29.	Telkom Kenya Limited
30.	University of Nairobi Enterprises and Services Limited
31.	New Kenya Co-operative Creameries Ltd
32.	Kenya Electricity Transmission Company