

**CHALLENGES OF IMPLEMENTING PERFORMANCE CONTRACTING  
STRATEGY AT IMPACT RESEARCH AND DEVELOPMENT  
ORGANISATION, KISUMU COUNTY KENYA**

**BY**

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## DECLARATION

I declare that this project is my original work and has not been previously in its entirety or in part been presented for a degree or other academic work.



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This project has been submitted for examination with my approval as university supervisor.



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## **DEDICATION**

This project is dedicated to my dearest mom and my late dad for their love for education, sacrifice, encouragement and their prayers which saw me soldier on in my studies. Special appreciation goes to my family, siblings and colleagues for their encouragement and unwavering support throughout my studies.

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## **ACRONYMS AND ABBREVIATIONS**

<b>MOU</b>	Memorandum of Understanding
<b>RBM</b>	Result Based Management System
<b>PBO</b>	Public Benefit Organization
<b>IRDO</b>	Impact Research and Development Organization
<b>NGO</b>	Non-Governmental Organization
<b>PC</b>	Performance Contracting

## **ABSTRACT**

Performance contracting is a strategy designed to manage performance and also a distinct element of organizational reforms. Despite the importance of performance contracting strategy, challenges such as a culture of non-performance, absence of accountability and resistance to change has raised numerous questions as to whether the strategy actually helps in enhancing organizational performance. Consequently, the objective of this study was to establish the challenges of implementing performance contracting strategy at Impact Research and Development Organization. The theories that anchored this study were the Expectancy and Goal Setting Theories respectively. To address the study objective, the research collected primary data and utilized qualitative content analysis. To collect the primary data, senior managers were interviewed on the challenges faced by Impact Research and Development Organization in the implementation of Performance Contracting strategy. Content analysis was used to analyze and present the information generated from interviews and structured based on the most common themes. Based on the findings, it can be concluded that while IRDO has made efforts to implement performance contracting strategy as part of its performance management, it faces significant challenges that affect the successful execution of this strategy including resource limitations and lack of staff engagement and awareness, the complexity of aligning individual and departmental goals with organizational objectives, lack of a clear framework to allocate resources and lack of external stakeholder collaboration in the implementation of performance contracting strategy.

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## **CHAPTER ONE: INTRODUCTION**

### **1.1 Background of the study**

Performance contracting strategy is a viable and important tool for monitoring and improving performance and remains a key element in an organization's transformation strategy. According to Njoroge (2017), performance contracting is a strategy designed to manage performance and also a distinct element of organizational reforms. Performance contracting is an integral part of service delivery strategy in organizations and a means of getting results from individuals and teams within a guiding working framework (Luwalira, 2015). Despite the importance of performance contracting strategy, implementation challenges have raised numerous questions as to whether the act actually help in enhancing organizational performance. Mbua & Ole Sarisar (2013) asserts that one of the main challenges of implementing performance contracting strategy is more cultural behavioral in nature, comprising the ineffective integration of activities and lack of commitment and ownership feelings by employees and managers.

The theoretical anchorage of this study was the Expectancy Theory (Vroom, 1964), and complemented by the Goal Setting Theory (Locke, 1960). The Expectancy theory predicates that employees will most likely put in extra effort if they expect that such efforts will lead to performance, which will then be recognized and rewarded appropriately (Vroom, 1964). Goal-setting theory postulates that organizations optimize their performance management processes by setting clear, challenging, and motivating goals (Locke, 1960).

Impact Research and Development Organization (IRDO) which has been in operation since 2002 has been implementing performance contracting since 2013 as a key component practice in implementing its donor funded projects (Strategic Plan 2013 – 2017). IRDO has continuously addressed the increasingly important concept of performance contracting as a way to incentivize, track and reward success within its operations. In terms of implementation, IRDO has sought to integrate the concept into its operations in a number of ways. Firstly, it has developed a system for contracts that accurately reflect performance goals and targets, and clearly set out how these targets will be met and monitored. This has

enabled the organization to ensure that performance is being accurately and regularly measured, and that necessary corrective actions are being taken in a timely manner. Secondly, IRDO has worked to ensure that performance based contracts are held by all partners within the organization, as opposed to individual contracts between each entity. This has enabled the organization to ensure that performance expectations are consistent across the entire organization, and that it is able to universally track, monitor and reward performance. Performance contracts are signed yearly and used as a basis for evaluating performance and progress and also providing a basis for continual improvement of processes and systems.

### **1.1.1 Strategy Implementation**

Various scholars have proposed definitions of strategy implementation, highlighting different aspects of the process. For instance, Sigei (2014) provided a definition for strategy implementation as "the process through which strategies and policies are translated into action by developing programs, budgets, and procedures.". Wekesa (2023) defined strategy implementation as operation through appropriate structural designs, control systems, and resource allocation. Mugambi (2019) defined strategy implementation as the pattern of actions and decisions undertaken to achieve strategic goals and objectives. While these definitions provide valuable insights into strategy implementation, strategy implementation is defined by this study as a dynamic and multifaceted process through which an organization translates its strategic goals and objectives into tangible actions and outcomes. This definition emphasizes the iterative nature of strategy implementation, highlighting the need for ongoing monitoring, adaptation, and coordination. It recognizes the importance of aligning organizational elements and emphasizes the achievement of strategic outcomes as the ultimate goal.

Scholars have identified several features, dimensions, and elements of strategy implementation that contribute to its effectiveness and success. These components shed light on different aspects of the implementation process and provide valuable insights for researchers and practitioners alike. Mugambi (2019) characterizes strategy implementation as the activities designed to allocate financial, human, and other resources strategically to

support the execution of strategic initiatives. Sigei (2014) describes strategy implementation in terms of well-designed structure that ensure that roles, responsibilities, and reporting relationships are aligned with strategic objectives, promoting efficient coordination and collaboration within the organization. Scholars emphasize the importance of strong leadership in driving implementation efforts, providing direction, aligning teams, and fostering a culture of execution (Mugambi, 2019). Strategy implementation involves establishing appropriate metrics, monitoring systems, and control mechanisms that enables organizations to track progress, identify deviations, and take corrective actions in a timely manner, as it helps ensure that implementation efforts stay on track and aligned with strategic objectives (Owino, Oluoch & Kimemia, 2019). Considering these elements, this study adopted a comprehensive set of features, dimensions, and elements of strategy implementation, with special attention given to establishing performance measures, performance measurement and control as it directly related to performance contracting.

### **1.1.2 Concept of Performance Contracting Strategy**

Performance contracting is defined as freely negotiated agreement between two parties, outlining their respective performance obligations. As stated by Owino, Oluoch & Kimemia (2019), it is characterized as a memorandum of understanding integrated with a monitoring system, which comprehensively assesses performance and enhances performance management in organizations by promoting clarity and transparency regarding autonomy and accountability. According to Sigei (2014), a performance contract is a collection of management tools employed to define expectations and responsibilities between involved parties, with the objective of attaining agreed-upon outcomes. According to Sigei (2014), performance contract serves as a tool to assist management and policymakers in the public sector in attaining common goals agreed upon by all parties involved.

Performance contracting involves a range of activities that aim to establish clear performance expectations, measure performance, and align incentives to achieve desired outcomes. Scholars have highlighted several elements and dimensions of performance contracting (Letangule & Letting, 2012). According to Juma (2015) the dimensions of

performance contracts include performance metrics, setting challenging performance targets, establishing robust performance measurement and monitoring systems, conducting periodic performance reviews and providing feedback, linking incentives to performance outcomes, developing strategies for performance improvement, and ensuring accountability for results. For this study, the focus will be on dimensions such as performance metrics and targets to explore their alignment with strategic goals, performance measurement and monitoring systems to examine their effectiveness in tracking and evaluating performance, performance-based incentives and rewards to understand their impact on motivation and performance (Shirley & Colin Xu, 2007), performance reviews and feedback processes to explore their effectiveness in driving improvement, and performance accountability and governance mechanisms to investigate how organizations ensure responsibility and fairness in performance evaluation and decision-making (Owino, Oluoch & Kimemia, 2019). Investigating these dimensions will provide valuable insights into the operationalization and impact of performance contracting in organizations.

Implementation of performance contracting strategy in diverse countries such as Malaysia, Singapore and India have generated significant global interest (Shirley & Colin Xu, 2007). Njagi (2017) noted that managers are increasingly challenged to adopt innovative approaches while working within limited resources. Jilani & Mbirithi (2022) explains that implementing performance contracting strategies in private institutions, as in any other context, can be challenging due to various factors. Wekesa (2023) explains that some of the challenges specific to implementing performance contracting in private institutions are lack of clear performance metrics. The scholars further argues that performance contracting strategies requires careful consideration and agreement on what aspects of the institution's performance should be measured and how to measure them accurately. Wekesa (2023) further outlined that employees and management may resist the shift from traditional approaches to performance evaluation and compensation. This resistance can stem from fear of the unknown, concerns about fairness, and a preference for familiar methods. Developing and implementing a performance contracting strategy requires investment in resources such as technology, training, and specialized personnel to design and manage the

system effectively. A lack of understanding about the benefits of performance contracting can also hinder its successful implementation. Without clear communication and buy-in from stakeholders at all levels, employees may not see the value of the new approach. Muriuki (2019) argues that when performance contracting is primarily tied to financial rewards, it can lead to unintended consequences such as employees focusing solely on short-term goals to earn incentives, potentially neglecting long-term institutional growth. Prior empirical literature has acknowledged the application of PC in establishing clear goals, measuring performance, and providing feedback to employees. It has been shown to improve employee morale, engagement, and productivity (Muraguri & Wagoki, 2016). On the other hand, others have questioned the efficacy of performance contracts and the long-term retention of employees, noting the potential of a distorted sense of motivation due to external rewards and inflated expectations (Muriu, 2014).

### **1.1.3 Impact Research and Development Organization (IRDO)**

Impact Research and Development Organization (IRDO) is a Kenyan Non-Governmental Organization registered in January 2003, with its headquarters in Kisumu and regional offices across nine counties namely Kisumu, Homabay, Siaya, Migori, Busia, West Pokot, Turkana, Kisii and Nyamira; driven by a principal mandate of designing and implementing public health programs and undertaking research that benefits vulnerable populations, especially young people and women in Kenya. IRDO conducts several health promotion and disease prevention programs in 25 counties in Kenya. The initiatives in this case are mostly funded by donors, more specifically PEPFAR, UCSF, the World Bank, as well as other sources.

Impact Research and Development Organization previously experienced a myriad of challenges before adopting performance contracting in 2013 (Strategic plan 2013-2017). These challenges were related to ambiguity in defining the roles and responsibilities in the various administrative units, lack of clear performance indicators on what was to be achieved within a given time frame and unavailability of standard operating procedures to support the implementation framework. This made it difficult for IRDO to achieve its employee and organizational objectives. The application of Performance Contracts has

been established by the organization as effective tool of improving the overall organizational performance. Essentially, a performance contract has been considered by IRDO as an agreement between the organization and the individual employee which establishes general goals for the organization.

## **1.2 Research Problem**

Performance contracting strategy is a vital tool for organizations because of its ability to align organizational objectives, improve accountability, and drive organizational performance. However, despite its strategic importance, there are challenges facing the implementation of performance contracting strategy (Busaka & Khwasira, 2015). A study by Mutembei, Wanjiru & Tirimba (2014) on challenges of implementing performance contracting within the Kenyan Public sector, established that weak implementation efforts, inadequate resources and lack of clarity of task and duties undermined the delivery of the expected results. An investigation by Nganyi et al., (2014), on the efficacy of performance contracting in enhancing service delivery in Kenya's public universities found that it did not succeed in achieving its objectives. According to a study by Abdulkadir (2014) on the challenges of implementing internal control systems in a faith based organization in Kenya, contended that various factors, including the fundamental nature of the strategy, the competencies of implementing staff, the view of the directors and senior managers, communication processes and systems within the organization and the organization culture were critical factors that affected the implementation of performance contracting. Notwithstanding, a study by Mutembei, Wanjiru & Tirimba (2014) concluded a significant relation between performance contracting and the delivery of service in Kenya's county Governments. However, the studies have pinpointed contextual and conceptual gaps as they were conducted in public agencies whose contextual settings and the attendant findings cannot be replicated to Non – Governmental Organizations. While studies done on Non - \_ Governmental organizations have been done, they failed to address the implementation of performance contracting and attendant challenges, which this study sought to attend to.

Impact Research and Development Organization (IRDO), like other global NGOs, prioritizes the implementation and institutionalization of reforms for delivery of quality and ethical services. Consequently, the implementation of performance contracting strategy was established by IRDO as an effective tool of improving the overall organizational performance. However, IRDO continues to experience a myriad of challenges by adopting the performance contracting strategy (Strategic plan 2013-2017). These challenges were related to ambiguity in defining the roles and responsibilities in the various administrative units, lack of clear performance indicators on what was to be achieved within a given time frame and unavailability of standard operating procedures to support the implementation framework. While there have been both successes and challenges in reforms, implementation of performance contracting strategy across different sectors worldwide have been introduced. Performance contracting is one such reform and intervention pursued by IRDO to improve organizational management efficiency and effectiveness.

Numerous studies have examined the effects, successes, and challenges of implementing performance contracting as a strategy globally. A study conducted in China, for instance, suggested that performance contracting can enhance performance. However, the study relied on employee and management opinions rather than rigorous literature analysis (Shirley & Lixin, 2007). In India, a study revealed improvements in dialogue between management and the government, but the impact on performance remained not clear (Shah, 2012). Another study conducted in China by Shirley & Xu (2008) found that performance contracting did not enhance labor productivity in cases of information asymmetry, lack of incentives, and insufficient commitment to contract goals.

In the local context, Busaka and Khwasira (2015) conducted research to examine the challenges encountered while implementing performance contracting (PC) in Kenya's public sector. The study identified various obstacles and underscored the significance of sustaining the performance improvements resulting from PC to enhance the delivery of public services in Kenya. It's worth noting that this study solely focused on the public sector and did not take into account the private sector. In another study, Abdulkadir (2014)



focused on the impact of performance contracting on performance in government organization in the energy sector in Kenya, and concluded the ineffectiveness of performance contracting as some staff members had not signed performance contracts. Although the study focused on government institutions, it did not examine the measures implemented to mitigate the challenges of implementing the performance contracting strategy. Additionally, Nyongesa, Sewe, and Ng'ang'a (2012) employed a descriptive mixed-method approach to examine the challenges faced in implementing performance contracts in government institutions in Kenya. The study established that performance contracts help employee to be more enthusiastic about their jobs. However, the study identified cases of resistance to change and some managers negotiating easier targets than their capabilities. The study did not sufficiently address the measures employed to mitigate the challenges of implementing the performance contracting strategy. Furthermore, it focused solely on performance in government institutions. In contrast, this present study investigated the challenges of implementing performance contracting strategy and the mitigation measures IRDO had put in place to deal with the challenges.

Although studies have been done on the challenges of implementing performance contracting strategy (Gakure, Muriu and Orwa, 2013), a review of these cited studies shows a number of conceptual and contextual gaps. Studies by Abdulkadir, (2014) and Jilani & Mbirithi, (2022) focused on the factors that influenced the implementation of PC strategy without addressing the specific challenges of implementing performance contracting strategy. Moreover, most of the studies contextual settings were in the public sector and not in the private sector. Thus, studies done in the public sector cannot be generalized to apply in the private sector and specifically in non - governmental organizations. The present study sought to focus on a private organization in the NGO sector. Thus, in a bid to address these gaps, this study sought to address the following question: What are the challenges of implementing performance contracting strategy at IRDO, Kenya?

### **1.3 Research Objective**

This research was guided by the following research objectives

- i) To identify the challenges faced by IRDO in implementation of Performance Contracting strategy.
- ii) To determine the measures put in place to mitigate the challenges of implementing PC strategy at IRDO.

## **1.4 Value of the Study**

In the academic realm, this study will serve as a source of reference for scholars in various forums and provide crucial empirical literature seeking to fill research gaps and conduct further research in the area of challenges and implementation of performance contracting strategy. It will also lay the groundwork for future studies on performance contracting strategy by aiming to build on the theoretical foundation of this study with regard to the Expectancy and Goal Setting theories respectively.

The study will add practical value to the management of IRDO, as it will offer insights into the challenges and the mitigation measures that the organization can put in place during the implementation of the PC strategy. It will help the IRDO senior managers to make informed decisions and adopt best performance contracting strategies that will enable the organization secure more donor funds in today's dynamic and competitive environment.

Given that IRDO heavily relies on donor funding, the study findings on the challenges of implementing the performance contracting strategy will provide valuable information for IRDO's top managers to formulate policies on performance contracting strategy and on the management of human resource that will enable IRDO to effectively implement the performance contracting strategy by proactively mitigating the attendant challenges.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

The chapter commences by examining different theories that are relevant to this study. In order to identify any existing research gaps, an evaluation of empirical literature

concerning the obstacles of implementing performance contracting strategy was conducted. Specifically, the chapter highlights the theoretical foundation, extant knowledge on the challenges of implementing PC strategy and the summary of the knowledge gaps.

## **2.2 Theoretical Foundation**

This study will be anchored on the Expectancy and Goal setting theories respectively. The Expectancy theory (Vroom, 1960) suggests that organizations can improve on their performance by setting challenging and measurable goals, through continuous feedback for goal attainment. Goal Setting theory (Locke & Latham 2019). postulates that setting specific and challenging goals can lead to improved performance.

### **2.2.1 The Expectancy Theory**

The Expectancy Theory (Vroom, 1964), posits that an individual's motivation to perform a particular behavior is influenced by the expectancies, instrumentalities, and valence. The theory argues that the strength of an individual's inclination to act in a particular manner depends on the expectation that their actions will result in a desired outcome (Min, et al., 2020). According to Vroom, an individual's choices are influenced by concurrent psychological events (Min, et al., 2020). Expectancy reflects an individual's belief in the possibility of a specific outcome. People assess the likelihood that their efforts will lead to a desired level of performance. If they believe that their effort will likely result in successful performance, their motivation increases. Lee (2019) states that the Expectancy theory helps to explain how individuals make decisions regarding their behaviors and efforts based on their expectations of the outcomes of those behaviors. The theory proposes that people are motivated to act in a certain way if they believe that their actions will lead to desired outcomes and rewards (Lee, 2019).

However, critics argue that Expectancy theory oversimplifies the complexity of human motivation by focusing primarily on rational decision-making, thus it may not fully account for emotional and social aspects of motivation (Min, et al., 2020). Moreover, the theory seems to assume that everyone evaluates effort, performance, and rewards in the same way, which might not hold true for all individuals. Despite its criticism, Expectancy theory can

be used to understand how employees perceive the relationship between their efforts, performance, and rewards in the context of a performance contracting strategy. If employees doubt that their efforts will lead to fair performance evaluation or meaningful rewards, their motivation to implement the performance contracting strategy could diminish. The theory provides a framework for identifying and addressing issues related to effort-performance links, performance-reward links, and the perceived value of rewards in the context of implementing performance contracting.

### **2.2.1 Goal-Setting Theory**

The Goal-Setting Theory (Locke & Latham, 2019), suggests that specific and challenging goals motivate individuals to perform better. Goals provide direction, focus attention, and increase effort (Jeong, Healy & McEwan, 2021). Key elements of the theory include, setting clear and specific and challenging goals, providing regular feedback on progress toward goals. Hence, the theory asserts that specific and challenging goals result in higher performance (Locke & Latham, 2020). Challenging and specific goals have performance benefits for individuals, organizational units, and entire organizations. Specific goals enhance motivation and performance by directing attention towards specific objectives, increasing effort, fostering persistence in the face of setbacks, and encouraging the development of strategies to overcome challenges in achieving goals (Locke & Latham, 2019). Thought-provoking goals usually lead to increased income, which imbue work with a greater sense of purpose and alleviate boredom (Locke & Latham, 2020). The core components of the goal-setting theory include a high level of goal clarity and feedback.

Critics of the theory argue that an overemphasis on goal achievement might lead to unethical behavior or tunnel vision, where individuals prioritize goals over other important aspects. Further, Locke & Latham (2019) points out that the theory may not fully consider the broader contextual factors that can influence motivation and performance. Despite the criticism, Goal-Setting Theory holds particular relevance to this study as implementation of performance contracting strategy heavily involves the setting of specific and challenging goals. The evaluation of individuals in implementing performance contracting strategy is based on the goals they have set. Moreover, Goal-Setting Theory can be applied to understand how the establishment of clear, challenging, and specific performance targets

within a performance contracting strategy can influence employees' motivation and behavior. If the goals are unrealistic, unclear, or not aligned with employees' abilities, it can lead to frustration and demotivation. By considering the principles of goal-setting, researchers can explore how the formulation and communication of performance targets affect employees' engagement and success in the implementation of the performance contracting strategy.

### **2.3 Challenges of Implementing Performance Contracting Strategy**

Numerous studies have been conducted worldwide to examine the effects, successes, and challenges of implementing performance contracting. In China, for example, there is evidence suggesting that performance contracting can enhance performance. However, these findings were based on opinions from employees and management rather than critical literature (Shirley & Lixin, 2007). A study conducted in India showed improvements in dialogue between state-owned enterprise management and the government, although the impact on performance remained unclear (Shah, 2012). Another study conducted in China by Shirley & Xu (2008) found that the effectiveness of performance contracting in improving labor productivity depended on factors such as information asymmetry, lack of incentives, and commitment to the contract goals.

At the local level in Kenya, Mbua and Sarisar (2013) investigated specific challenges faced while implementing performance contracting within the public sector. The study involved review of relevant literature on performance contracting in various settings in Kenya. It revealed several challenges associated with performance contracting and emphasized the importance of sustaining performance gains to enhance public sector service delivery. Gakure, Muriu & Orwa (2013) explored the relationship between performance contracting and performance effectiveness in the civil service in Kenya, revealing a strong correlation between the two. Juma (2015) examined the effect of performance contracts on organizational performance at the Ministry of Education in Kenya and found significant impacts on service quality, efficiency, consistency, and employee creativity. Jilani & Mbirithi (2022) analyzed the specific factors that influence performance contracting implementation within government institutions, focusing on the Kenya Civil Aviation Authority. They found that mutually agreed targets aligned with organizational objectives,

and performance measurements were utilized to evaluate, control, and enhance operational processes to achieve organizational goals.

Nganyi et al. (2014) conducted a study on performance contracting implementation and measurement in Kenyan public universities. They acknowledged the challenges associated with implementation but recognized the positive impact of performance contracting in enhancing performance through target setting, monitoring, and evaluation. Mauya (2015) and Kiprop, Okoth-Yogo, and Charagu (2014) also addressed the issue of low employee ownership of performance contracting, but highlighted its importance in improving service delivery. The findings indicated that the majority of participants were familiar with the goals of performance contracting in their ministries, demonstrating their understanding of the concept.

Wekesa (2023) conducted a study to assess the influence of performance contracting on the overall effectiveness of Public Universities within the Mount Kenya Region. The study employed a research design centered on surveys, collecting information from the complete population (census). Both primary and secondary data were utilized to amass insights, opinions, perceptions, emotions, and attitudes concerning the impact of performance contracting within education sector. The findings of the study indicated that certain personnel within the energy corporation had entered into performance contracts. While the study concentrated on governmental organizations, it did not delve into the strategies put in place to alleviate the difficulties linked to the execution of the performance contracting approach. Furthermore, Muriuki (2019) utilized a descriptive mixed-method technique to investigate the challenges encountered during the implementation of performance contracts within government institutions in Kenya. The study discovered that performance contracts contribute to heightened employee enthusiasm for their roles. Nonetheless, the research identified instances of resistance to change and instances where certain managers negotiated for less challenging targets compared to their capabilities.

As stated by Muriuki (2019), challenges may arise during the implementation of performance contracting strategy due to unforeseen circumstances or changes in the external environment. To address these challenges, research by Kiringai and Maru (2018)

suggests the importance of flexibility and adaptability. Organizations should be willing to adjust their performance contracting approach in response to emerging challenges and opportunities. This requires a dynamic approach that allows for course corrections and revisions of performance targets and indicators when needed. A flexible approach ensures that the strategy remains relevant and effective in achieving organizational goals over time.

## **2.4 Summary of literature and gaps**

Numerous studies have been conducted to examine the performance contracting strategy since its implementation in 2004. Through a re-evaluation of the literature, it became apparent that scholars have been interested in different perspectives or themes related to performance contracting over time. Upon reviewing the existing literature chronologically, it became evident that most studies have focused primarily on the impact of performance contracting in the Public Service, with limited empirical research addressing its application in PBOs.

Furthermore, there is no consensus regarding the link between the strategies employed and the performance contracting of most organizations. Global and local studies, such as those conducted by Ofori & Atiogbe (2015) and Chue & Wang (2015), have not only examined different contexts but also utilized varying methodologies. For instance, Abdulkadir (2014) study specifically focused on the performance of government institutions in the energy sector in Kenya, neglecting the broader scope of performance contracting. Consequently, the majority of reviews and studies have centered on the public service, particularly government institutions, rather than PBOs, leading to significant knowledge gaps that this study aims to address. While some local studies have explored PBOs, such as those conducted by Mwasi (2014) and Dekings (2015), none of them have focused on performance contracting strategies and the associated implementation challenges. Additionally, no studies have been specifically dedicated to examining performance contracting in PBOs. These local studies have also differed in their contexts and methodologies, with a predominant use of case study designs and interview guides for data collection. Although numerous studies have been conducted on performance in various

sectors and enterprises, little attention has been given to PBOs, particularly within the context of Kisumu County.

Moreover, although many studies have been done on PC strategy implementation challenges; Gakure, Muriu and Orwa, 2013; Mbebe, 2021; a critical review of these studies shows the emergence of conceptual and contextual gaps that can be addressed by another study. For instance, some of the studies (Wekesa, 2023 and Mbebe, 2021) looked at the factors that influenced the implementation of PC, without focusing on the specific challenges of implementing PC. Moreover, most of the studies have focused on the public sector context, without any attention on the private sector. This study aims to fill these research gaps and provide valuable insights into the performance contracting practices within PBOs.



## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter presents the overall methodology that will be followed to help answer the research questions. It precisely comprises of research design, study population, sampling technique, data collection and data analysis.

### **3.2 Research Design**

This study used a case-study research design. This was considered appropriate due to the researcher's limitation to manipulate the variable of the study. Similarly, the case study approach was used to generate an in-depth, multi-faceted understanding of the context. It combined both qualitative and quantitative data to provide a description of the current state of affairs at IRDO. This design is straightforward to implement and provides convenient and relevant information for the study (Cooper & Schindler, 2014).

### **3.3 Data Collection**

The study mainly used mainly primary data, though some secondary literature was also used. Primary data was generated from the selected individual respondents, mainly managerial and supervisory cadres at IRDO. An interview guide was used to collect primary data; it consisted of open-ended questions. Primary data from the interview provided original raw evidence on challenges of implementing performance contracting strategy at IRDO in Kisumu, Kenya. Secondary data on the other hand was obtained from already existing annual reports at IRDO as well as relevant existing scholarly journals and articles. The researcher got consent/authorization from the NACOSTI. The researcher also got clearance from the University to conduct data collection by obtaining an introduction letter from the university. Each interview guide was accompanied by a cover letter emphasizing the anonymity and confidentiality of the provided information. The study prioritized ethical considerations to maximize the response rate. The researcher explained the significance of the study to the participants and obtain informed consent for their participation. Key informant interviews was conducted though face-to-face, ensuring participants' confidentiality and willingness to share their experiences. As postulated by Kumar (2018), key informant interview should be delivered in the same language, structure

and phrasing to sample respondents. They are simple and cheap to administer as well as easy to analyse.

### **3.4 Data Analysis**

A thematic analysis was used to present the information generated from the interviews in an organized way based on the most consistent themes and as per the research objective. Moreover, qualitative information identified through literature search was classified and organized in groups and categories using thematic approach (Yin, 2016). Thematic analysis involved the identification of themes that remained consistent among the data sources on the challenges of implementing performance contracting strategy at IRDO.

## **CHAPTER 4: DATA ANALYSIS, FINDINGS AND DISCUSSION**

### **4.1 Introduction**

This chapter presents the analysis of data, findings and discussion on the challenges of implementing performance contracting (PC) at IRDO, as well as the mitigation measures employed to address these challenges. Furthermore, it discusses whether the findings align with the theoretical foundations of goal setting and expectancy theories, as well as their convergence with existing empirical literature.

### **4.2 Implementation of Performance Contracting Strategy**

The interviewees comprising the Heads of Divisions and departments at IRDO, and who have worked in their current capacities for more than five years, emphasized that the implementation of the PC strategy had been integrated into the organization's corporate policy and strategy. According to the Human Resource and Administrative Manager;

*“Performance targets are set at the beginning of the financial year, with both supervisors and supervisees actively involved in aligning these targets with organizational goals and formalizing commitments through contracts.”*

According to the interviewees, performance contracts accurately reflected the performance goals and included clear monitoring mechanisms, with quarterly reviews to facilitate timely corrective actions.

Interviews by the supervisors showed that communication was essential when implementing the PC strategy as it clearly showed their roles in communicating to their subordinates when conducting the appraisals, and showing how the PC targets were aligned with IRDO's strategic objectives.

According to the interviewees, IRDO had sensitized and made them aware of the implementation of the PC strategy and the eventual signing of the PC. As outlined in IRDO's strategic plan (2013 – 2017), PC strategy is intricately linked to IRDO's strategic plan, with time-bound targets designed to address performance gaps and shape strategic goals and human resource policies.

According to the interviews held by the senior managers, they agreed that significant achievements had been made in the organization since the introduction of PC. They cited improvements in management functions and appreciated PC as an effective management tool. The interviewees admitted that the quality-of-service delivery had greatly improved due to introduction of quality management systems in the institution.

### **4.3 Challenges of Implementing Performance Contracting Strategy**

The study established that there were significant challenges faced in the implementation of PC strategy at IRDO. The interviewees indicated that due to resistance to change, getting staff to fully understand and implement the performance contracting strategy was a significant challenge. One HOD noted,

*"Getting staff to fully understand and implement the desired goals is a major challenge"*

The interviewees decried the lack of adequate proper training and preparation. They alleged that some of the newly appointed officers had not received any related training on PC implementation. The findings reveal that lack of proper training and preparation and in particular of heads of departments could be a barrier to PC implementation. Interviews held by all the supervisors also agreed that some staff did not clearly understand the requirements of some of the pre-determined performance indicators and as such, found it difficult to implement such indicators.

The interviewees noted that achieving 100% staff awareness on the implementation of the PC strategy was a challenge. This echoes the importance of disseminating information and ensuring that all employees are cognizant of the PC strategy. As one HOD put it;

*"Achieving this goal is essential"*

Another interviewee highlighted that aligning projects' financial years to the organization's financial years was a serious challenge. As pointed out by the Programs Manager;

*"Aligning projects' financial years to organization financial years is a priority challenge towards the implementation of the PC strategy at the IRDO"*

The programs manager further noted that some projects were not running concurrently with the company's financial year thus implying targets and goals had to roll over to the next period.

Moreover, the inability of external stakeholders, such as the Ministry of Health (MOH), to provide necessary policy guidelines was recognized as a challenge. This challenge highlighted the vulnerability of the organization to external factors, as one HOD stated,

*"The lack of key stakeholders' collaboration have hampered some of the project operations undertaken by IRDO"*

The interviewees noted that managing the rate at which funds are spent, known as burn rate, was identified as a major challenge as they emphasized that efficient resource utilization was essential for achieving PC targets.

The interviewees further noted that the unpredictability of external factors like epidemics like the COVID-19 was a notable challenge since such events could disrupt the planned activities and impact on IRDOs mandate.

The limited resources, especially for staff training were identified as a challenge, which could hinder capacity building and performance improvement. As noted by one of the interviewees:

*Staff capacity training has been a major challenge especially in the area of monitoring and evaluation of HIV/AIDS research and intervention programs that could improve the health status of individuals and local communities".*

According to one of the interviewees, majority of the staff had not received the relevant training in terms of PC strategy implementation. The lack of adequate resources was cited as a major hindrance to capacity building of staff and therefore as a barrier to PC implementation. The Administrative Manager noted;

*"That only 30% of funds are allocated for administrative function under which training is domiciled thus it is not sufficient".*

Most of the interviewees expressed concern that the introduction of the PC strategy in the organization had increased staff workload and this could negatively impact on the effective implementation of the core organizational activities. As was evidenced in the IRDO Annual Performance Report (2021 – 2022), the challenges of implementing the PC strategy included job insecurity, a culture of reduced commitment due to signing of the PC contracts, generic reward and punishment systems, lack of innovation and objectivity, resource inadequacy, issues with accommodating long-term employment, and difficulties in conceptualizing PC itself.

All of the interviewees were of the opinion that IRDO had not been entirely successful in implementing PC, primarily due to the mentioned challenges. This was validated by IRDO Annual Performance Report (2021 – 2022) that indicated an average of 70% implementation rate.

#### **4.3 Mitigation Measures for the Challenges of Strategy Implementation**

To reduce staff resistance to the implementation of PC strategy, IRDO has enhanced its training and development activities, sensitized staff on the PC and rationalized the work load.

According to the interviewees, to address the challenges, IRDO had implemented several mitigation measures to enhance staff capacity such as on-the-job training and voluntary mentorship. As reported by the heads of programs;

*“We have pre-planning with key stakeholders especially the Ministry of Health to ensure the efficient provision of necessary guidelines and policies to mitigate the impact of external factors on operations”*

The interviewees further explained that IRDO had developed a centralized reporting system to help monitor and manage the alignment of projects' financial years with IRDO's financial years. Regular reminders about contract end dates encouraged staff to focus on achieving their targets within specified timeframes. As reported by the head of the human resource;

*“Employees are offered reminders about the continuous alignment of the projects time lines and the organization’s financial obligations in line with the PC contract period”*

The interviewees further reported that IRDO had structured its project activities to align with its strategic goals, hence ensuring that PC targets supported the overall strategic plan. The interviews further revealed that IRDO had adopted ICT infrastructure to enhance communication and information sharing, addressing challenges related to communication and collaboration.

#### **4.4 Discussion**

The findings of this study have established that IRDO faces numerous obstacles in implementing performance contracting. The challenges identified include difficulties in staff comprehension and alignment with goals, achieving full staff awareness, aligning project financial years with the organization's fiscal calendar, external stakeholder influences especially the Ministry of Health, burn rate issues, unforeseen epidemics such as the COVID-19 which affected its field activities, and limited resources for staff training. The challenges identified such as the need for staff to understand and implement goals and the importance of staff awareness, align with Goal Setting Theory. This theory posits that clear, specific, and challenging goals motivate individuals and improve performance. The challenges underscore the importance of setting clear and understandable performance targets to enhance employee commitment and goal attainment. In this context, the challenge reflects the importance of setting clear and understandable performance targets to enhance employee commitment and goal attainment. Ensuring that staff comprehend and implement desired goals is essential for effective PC.

Equally, the challenge of achieving complete staff awareness resonates with Goal Setting Theory's emphasis on communication and shared understanding of goals. For PC to be effective, all employees must be fully aware of the performance targets. The findings support the theory's assertion that clear communication and awareness are critical components of goal setting. While not directly related to Goal Setting Theory, this challenge indirectly impacts the alignment of goals and budgets. The theory emphasizes

the importance of aligning goals with organizational objectives, and any misalignment can hinder goal attainment. Therefore, aligning financial cycles is crucial for effective goal setting and budget allocation.

The fear of job insecurity, as reported, aligns with the Expectancy Theory. According to this theory, individuals are motivated when they believe their efforts will lead to desired outcomes. Fear of job insecurity can negatively affect employees' expectations, leading to decreased motivation and performance. The challenge of staff commitment is also in line with Expectancy Theory, which suggests that individuals must believe their efforts will lead to favorable outcomes. Expectancy Theory suggests that individuals are motivated to act in a certain way when they expect that their actions will lead to desired outcomes. Challenges related to limited resources, the impact of external stakeholders, and the unpredictability of events (such as COVID-19 epidemics) highlights the role of expectancy in PC implementation. When resources are limited, and external factors are uncertain, employees may have lower expectations of achieving their goals, potentially affecting their motivation.

The findings of this study align with existing empirical literature on challenges of implementing PC strategy. The challenge of aligning project financial years with organizational financial years, the impact of external stakeholders and resource limitations are consistent with findings from prior studies (Mauya 2015). The findings of this present study also align with studies by Kiprop, Okoth-Yogo & Charagu (2014) which highlighted the challenge of low employee ownership of performance contracting. Nonetheless, the challenge of unexpected events occurring during the implementation of the PC strategy concurs with findings by Muriuki (2019), where during the implementation of performance contracting strategy, unforeseen circumstances or changes in the external environment could hamper the effective implementation of PC strategy.

To overcome the challenges associated with PC implementation, IRDO relies on strategies like on-the-job training, voluntary mentorship, pre-planning with stakeholders, and central reporting. However, it is evident that the road to successful PC implementation at IRDO is still fraught with obstacles, primarily stemming from resource constraints and the need for



better staff understanding and commitment. Research by Kiringai and Maru (2018) had suggested the importance of flexibility and adaptability in addressing the challenges associated with PC. Organizations should be willing to adjust their performance contracting approach in response to emerging challenges and opportunities. This requires a dynamic approach that allows for course corrections and revisions of performance targets and indicators when needed. A flexible approach ensures that the strategy remains relevant and effective in achieving organizational goals over time. Moradi, et al. (2020) in a study on performance contracting in Finland found that some of the benefits that were associated with the introduction of performance contracting were improved cooperation between the state agencies themselves, improved coordination between the Ministry and its subordinate agencies, improved commitment to the strategic goals set by the Ministry and better linkages with planning and budgeting process.

The findings of this study concur with the studies done by Sigei (2014) & Owino, Oluoch & Kimemia (2019) which found that availability of resources were critical determinants in implementing PC strategy. One unique contribution of this study is the emphasis on the importance of achieving staff awareness and understanding of PC goals. While some challenges are commonly discussed in the literature, this specific challenge highlights the need for effective communication and education within organizations implementing PC.

## **CHAPTER FIVE: SUMMARY, CONCLUSION, AND RECOMMENDATIONS**

### **5.1 Introduction**

Chapter five provides a summary of the key findings, draws conclusions, and offers recommendations based on the study's results on the challenges of implementing Performance Contracting (PC) at Impact Research and Development Organization (IRDO) in Kisumu County, Kenya.

### **5.2 Summary**

In summary, the key findings from the study on the challenges of implementing PC at IRDO included lack of staff understanding and buy-in, lack of full staff awareness, non alignment of the project financial timelines and the organization's financial timelines, lack of key external stakeholder collaboration, burn rate problems, unplanned epidemics, and limited resources for staff training. The study also established that the organization had put in mitigation measures such as on-the-job training, pre-planning with stakeholders, and a centralized reporting system. The findings indicated that the culture of IRDO affected the implementation of the PC strategy and the challenges brought about by the culture included communication problems between the departments. IRDOs structure was an impediment on how the performance contract strategy will be implemented since it affected the communication as the feedback mechanism was not well integrated. Poor coordination and lack of staff awareness led to some employees not knowing what to do and therefore the senior managers should put in place clear mechanisms to ensure that there is proper coordination in the organization. One unique finding was the challenge of aligning project financial years with the organization's fiscal year.

### **5.3 Conclusion**

Based on the findings, it can be concluded that while IRDO has made efforts to implement PC as part of its performance management strategy, however, it faces significant challenges that affect the successful execution of this strategy. The findings shed light on the

challenges and complexities surrounding the implementation of PC. These insights underscore the importance of addressing resource limitations and enhancing staff engagement and awareness to improve the effectiveness of PC at IRDO. These challenges are not unique to IRDO but are shared by many organizations, especially in the non-profit sector. The study findings further highlight the complexity of aligning individual and departmental goals with organizational objectives and the importance of resource allocation and external stakeholder collaboration in PC implementation.

#### **5.4 Recommendations for Policy and Practice**

Drawing from the study's findings, the practical recommendations for IRDO is that to enhance staff capacity, it should allocate more resources to staff training and capacity building to address the challenge of limited resources for training. It's recommended that IRDO should continue to focus on improving staff awareness and understanding of PC goals through effective communication strategies. IRDO should work towards aligning project financial years with the organization's fiscal year to streamline operations and improve resource management. Development of contingency plans to address unforeseen challenges such as unplanned epidemics, ensuring business continuity is also recommended.

To enhance key stakeholder collaborations, IRDO should formulate a policy that would form the basis of entering into collaborative agreements or memorandum of understanding with such stakeholder. To entrench a culture of performance, IRDO should formulate a policy on performance contracting and human resource policy especially in the area of staff compensation and reward. In the long run, its recommended that IRDO should revise its PC policies to accommodate long-term employment and address concerns related to job security.

#### **5.5 Limitations of the Study**

The limitations of this study are that it focused on the challenges and mitigation measures at IRDO and the research did not delve into how PC influenced donor funding or support.

The study was also conducted on one organization in the NGO sector and the findings cannot be used to apply in other organizations in different contextual settings. Thus, Contextually, the findings may not be generalized to other private NGOs in Kisumu Kenya, as the study was conducted in a single organization. Another limitation is that the study did not compare performance of IRDO before and after implementation of PC strategy

## **5.6 Suggestions for Further Research**

While this study provides valuable insights into the challenges of implementing PC at IRDO, further research is needed to validate and extend these findings across a broader range of organizations and contexts.

Performance contracting is one element of broader public sector reforms aimed at improving efficiency and effectiveness while reducing total costs and much of the existing literature is based on secondary data. Given the scope and limitations of this study, the researcher suggests that further research be carried in other NGOs in Kenya.

The study also suggests that a comparative study be carried out to investigate the extent to which other private organizations are implementing performance contracting in Kenya. Comparisons on the differences in the successes and failure of performance contracting in the State Corporations, Private Organizations, Ministries and Departments would be an area of interest to explore the factors that enhance and inhibit the implementation of performance contracting in Kenya.

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## **Appendix 1: Consent Form**

Informed Consent Form

### **RESEARCH PARTICIPANT'S CONSENT FORM**

Form number \_\_\_\_\_

**Introduction:** My Name is Florence Awuor Amollo, Doing a Research on CHALLENGES OF IMPLEMENTING PERFORMANCE CONTRACTING STRATEGY AT IMPACT RESEARCH AND DEVELOPMENT ORGANISATION, KISUMU COUNTY, KENYA for the award of degree in Master of Business Administration at the University of Nairobi.

#### **What participation Involves**

You will be required to answer a number of questions in order to obtain the intended information as per the objective of this study. Participation will require about 10 to 20 minutes of your time.

#### **What risks I can expect by participating in the study?**

The study does not anticipate any risk as you are only expected to respond to the questions in the questionnaires.

#### **Confidentiality**

All information that shall be collected will be kept in private and solely used for this study. The form will not bear your name nor identification number but only carry a unique number assigned to you.

Signature of Participant \_\_\_\_\_ Date of signed consent \_\_\_\_\_

## **Appendix II: Key Informant Interview Guide**

### **For Managers and Supervisors at IRDO**

**Interviewee agreed to be interviewed (signed consent form): Yes ( ) No ( )**

#### **PART A INTERVIEW GUIDE FOR HEADS OF DEPARTMENTS AT IRDO**

1. How long have you worked at IRDO in your current capacity?
2. How is performance contracting implemented at IRDO?
3. How are performance targets set at IRDO?
4. How are employees under you involved in setting performance targets for your function? Please explain.
5. How are resources to meet PC targets allocated to the various divisions and departments at IRDO?  
  
In your opinion, are the resources sufficient to carry out activities set?
6. Does the leadership of IRDO attach much importance to performance contracting at your level? Explain
7. Does IRDO have an independent monitoring and evaluation system to monitor and evaluate your performance?
8. In order of priority, describe the challenges experienced in the implementation of performance contracts?
9. How does each challenge mentioned in (8) affect the implementation of performance contracting at IRDO?
10. How are these challenges of implementing performance contracting at IRDO overcome?
12. In your opinion, has IRDO been successful in implementing performance contract since its inception?

## **PART B: INTERVIEW GUIDE FOR SUPERVISORS**

1. Are you familiar with performance contracting at IRDO?
2. How is performance contracting communicated in IRDO?
3. In what ways are you involved in the implementation of performance contracts in your department? What is your role?
4. What did IRDO do to make you prepared sufficiently to work with performance contracts before they were introduced?
5. How have you been involved in the formulation and implementation of IRDO's strategic plan?
6. Explain how the performance contract is linked to IRDO strategic plan?
7. Explain the major challenges arising from the introduction and implementation of the performance contracting concept?
8. How has IRDO dealt with each of the challenges mentioned in (7) above?
9. Is there any other information you wish to share about your experience with performance contracting at IRDO?
10. If the implementation was done differently would it have given different results?  
Elaborate.

**Thank you for your participation.**