THE EFFECTS OF PERFORMANCE CONTRACTING ON THE PERFORMANCE OF STATE CORPORATIONS IN KENYA

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ABSTRACT

State Corporation performance is based on the observed overall performance of the public institution while managerial performance is the total enterprise performance adjusted for exogenous factors which are beyond the control of managers. This study therefore aimed at establishing the effects of performance contracting on the performance of State Corporations in Kenya. The study's specific objectives included: to determine priorities set out in the implementation of performance contracting at State corporations in Kenya; to determine the extent to which performance contracting influences the State Corporation performance of State corporations in Kenya; and, to establish the relationship between performance contracting and managerial performance at State corporations in Kenya. The researcher adopted descriptive survey research design. The target population of this study consisted of all State corporations in Kenya. For the purposes of this study, the sampling frame consisted of all the State corporations listed by the Office of Public Communications as at 31st December 2010. The study employed purposive sampling technique to select thirty five (35) State Corporations which have their headquarters in Nairobi. The data collected was quantitative and qualitative in nature and was collected using a structured questionnaire containing both open ended and closed questions. The questionnaires were distributed by research assistants through 'drop and pick' method and in some cases by email. Collected data was edited, coded and analyzed using descriptive analysis such as regression analysis, frequency distribution and measures of central tendency. Statistical Package for Social Sciences (SPSS) was used to analyze the data. The study's response rate was 71%. Findings indicated that majority of the corporations make it mandatory for employees to sign performance contracts before commencing with their duties and that this has been undertaken by majority of the firms over the last five years. Moreover, findings indicated that performance contracting influenced both enterprise and managerial performance at the State Corporations in Kenya. Findings further illustrated that there was a strong positive relationship between organizational and managerial performance and the implementation of performance contracting. It can therefore be concluded that performance contracting has had a positive impact/influence on both enterprise and managerial performance at the State Corporations in Kenya. The researcher recommends that the signing of performance contracts should be made mandatory for every employee and policy makers, regulators and government in general should be sensitive when drafting performance contracts and enforcing their implementation in State Corporations in Kenya to ensure long-term success in the implementation of performance contracting within State Corporations in Kenya.

Key Words: *performance contracting, public service, managerial performance, enterprise performance*

INTRODUCTION

Starting in France in the 1970's, Performance Contracting (PC) has been used in about 30 developing countries in the last fifteen years. In Asia, the Performance Contract concept has been used in Bangladesh, China, India, Korea, Pakistan and Sri Lanka. In Africa, performance Contracts have been used in selected enterprises in Benin, Burundi, Cameroon, Cape Verde, Congo, Cote d'Ivoire, Gabon, the Gambia, Ghana, Guinea, Madagascar, Mali, Mauritania, Morocco, Niger, Senegal, Togo, Tunisia and Zaire. In Latin America, they have been used at different times in Argentina, Brazil, Bolivia, Chile, Colombia, Mexico, Uruguay and Venezuela. Others include Malaysia, United Kingdom, U.S.A, Canada, Denmark and Finland among others (Musa, 2001). The boom of performance measurement as a reporting as well as a steering instrument has been fostered by the introduction of a contract culture in the public sector. Many public services are nowadays allocated by a tendering process. Performance-based contracts specify various ex ante and ex post facets of the required public service. Although the results are mixed, performance related pay schemes are gaining more and more importance within the public sector reforms (OECD, 2005).

State Owned Enterprises (SOEs), or State Corporations, are businesses that are owned and managed by the government. This definition comports with that given by Section 2 of the State Corporations Act (1987), which defines a state corporation as a body that is: Defined that way by statute; a body corporate established by an Act of Parliament; a bank or other financial institution or other company whose shares or a majority of whose shares are owned by government or by another State Corporation, and; a subsidiary of a state corporation. According to Njiru (2007), the Kenyan government forms these State Corporations to meet both commercial and social goals. They exist for various reasons including: to correct market failure, to exploit social and political objectives, provide education, health, redistribute income or develop marginal areas.

The Kenyan government acknowledges that over the years there has been poor performance in the public sector, especially in the management of public resources which has hindered the realization of sustainable economic growth (GoK, 2005). The government reiterates in the Economic Recovery Strategy (ERS) (2003) some of the factors that adversely affect the performance of the public sector. These include: excessive regulations and controls, frequent political interference, poor management, outright mismanagement and bloated staff establishment. To improve performance, the government has continued to undertake a number of reform measures. Such measures include: introduction of service charters, competitive recruitment and vetting of senior management, and introduction of performance contracting among others.

However, these measures have not provided a framework for guiding behavior towards attainment of results or ensured accountability in the use of public resources and efficiency in service delivery. The initiatives for instance lack the performance information system, comprehensive performance evaluation system and performance incentive system (GoK, 2005). Hence, in effort to achieve the objectives and targets of ERS and to manage performance challenges in public service, the Government adopted Performance Contracting (PC) in public service as a strategy for improving service delivery to Kenyans (GoK, 2005). The Performance Contract is one element of the broader public sector reforms aimed at improving efficiency and effectiveness, while reducing total costs.

Previous studies indicate that there have been mixed results on organizational performance and numerous challenges in the implementation of performance contracting. For instance, Musa (2001) concluded that the performance agreement of the early 1990's failed to achieve its stated objective i.e. to improve the performance of the State Corporations. This was because of widespread use of consultants in the formulation of contract plans, including the determination mechanisms for their monitoring and evaluation. Kiboi (2006) investigated management perception of performance contracting in State Corporations and concluded that as a result of performance contracting, State Corporations in Kenya have developed a reasonable sense of direction, a conviction that business cannot operate successfully without performance contracting and that performance contracting acted as an effective tool for improving performance in the organization.

In the Economic Recovery Strategy for Wealth and Employment Creation (2003) the government of Kenya, outlined its commitment towards the improvement of the general performance in ministries and State Corporations through the introduction of performance contracts. It is within this context that the Kenyan government introduced performance contract as a management tool for measuring performance against negotiated performance. The contract specifies the mutual performance obligations, intentions and responsibilities between two parties. The objectives of introducing the performance contracts were to improve service delivery to the public by ensuring that top-level managers were accountable for results; improve efficiency levels and ensure that public resources were focused on attainment of the key national policy priorities of the government; and institutionalize performance oriented culture in the public service; measure and evaluate performance among others (GoK, 2005).

STATEMENT OF THE PROBLEM

Njiru (2007) in his study of strategic change in the implementation of performance contracts among State Corporations in Kenya, observed that whereas most State Corporations in Kenya reported impressive developments in carrying out the change initiatives, a lot of challenges curtailed effective change management for successful implementation of performance contracts. Besides Njiru (2007) study, Musa (2001), Kiboi (2006) and GOK (2005) have shown that performance contracting has increasingly become an organizational performance issue in State Corporations in Kenya over the last couple of years. However, despite these research findings from these studies, little empirical research has been undertaken to investigate the effects of performance contracting on the performance of State Corporations in Kenya. According to Alford (2000), performance of a State Corporation can be evaluated ex-post where the evaluation is based on selected criteria determined at the end of the performance period, or ex-ante where the firm's performance is evaluated against a set of predetermined indicators. In managing the performance of public sector institutions, it is important to consider the State Corporations performance and the managerial performance at the same time. State Corporation performance is based on the observed overall performance of the public institution while managerial performance is the total enterprise performance adjusted for exogenous factors which are beyond the control of managers. Hence, in order to investigate the effects of performance contracting on the performance of State Corporations in Kenya, there is need to undertake a study into how State Corporations in Kenya undertake performance management through performance contracting and the effects of performance contracting on the performance of State Corporations in Kenya. This study therefore aimed at establishing the effects of performance contracting on the performance of State Corporations in Kenya.

GENERAL OBJECTIVE OF THE STUDY

The study's general objective was to establish the effects of performance contracting on the performance of State corporations in Kenya.

SPECIFIC OBJECTIVES OF THE STUDY

1. To determine priorities set out in the implementation of performance contracting at State corporations in Kenya.
2. To determine the extent to which performance contracting influences managerial performance of State corporations in Kenya.
3. To determine the extent to which performance contracting influences enterprise performance of State corporations in Kenya.

LITERATURE REVIEW

Performance Contracting

Before proceeding with this paper, it is essential to have a clear understanding of what is meant by Performance Contract and its origin. Performance Contract System originated in France in the late 1960s. It was later developed with great deal of elaboration in Pakistan and Korea and thereafter introduced to India. It has been adopted in developing countries in Africa, including: Nigeria, Gambia, Ghana and now Kenya (OECD, 1997).

The definition of Performance Contracts itself has been a subject of considerable debate among the scholars and human resource practitioners. Performance Contracting is a branch of management science referred to as Management Control Systems. A Performance contract is freely negotiated performance agreement between Government, organization and individuals on one hand and the agency itself (GOK Sensitization Training Manual, 2004).

OECD (1999) defines Performance Contract as a range of management instruments used to define responsibility and expectations between parties to achieve mutually agreed results. While Smith (2002) argues that a common definition of performance contracting can be found, there are a considerable variety of uses and forms for quasi-contractual arrangements. In this paper performance contracting is used as a management tool to help public sector executives and policy makers to define responsibilities and expectations between the contracting parties to achieve common mutually agreed goals. According to Shirley and Xu (2000) performance contracts are now widely used in developing countries where successful contracts have featured sensible targets, stronger incentives, longer terms, and managerial bonds but confined within competitive industries.

There are generally three types of performance contracts namely the French System, the Signaling System and Result Based Management. The French based system of performance contract does not allocate weights to targets. There is therefore no distinction between targets in terms of emphasis (by weighing them differently) and as such performance evaluation is affected by a high degree of subjectivity. It can only point out whether a particular target was met or not which creates great difficulty for making an overall judgment regarding agency performance. This system is practiced in France, the United Kingdom, Senegal, China, Ivory Coast and Benin (Trivedi, 2005; GOK, 2005).

The Signaling System is based on the premise that public enterprise management should be appropriately guided to aim at improving real productivity and its efforts acknowledged and rewarded by an incentive system. It allocates weight and adopts a system of a “five point” scale and “criteria weight” which ultimately results in calculation of “composite score” or an index of performance of the enterprise. It is thus hinged on the principle that given the capital stock at hand, how effectively can the management use it? The system aims at motivating management to maximize return on the sunken capital. A primary criterion of evaluation is therefore evolved which reflects the improvement in real productivity, which in turn leads to an increase in socially relevant profits (as opposed to privately relevant profit). A performance contract is signed at the beginning of the year which management is committed to improvement in real profitability. The Signaling System is practiced in Pakistan, Korea, Philippines, India, Bolivia and Gambia (Trivedi, 2005; GOK, 2005).

Performance management is a systematic process of planning work and setting expectations, continually monitoring the performance, developing the capacity to perform and periodically rating performance. Result based management is one type of performance management process. The concept involves formulation of outcomes and goals, selection of outcome indicators, setting of specific targets to reach and dates for reaching them, assessment of whether the targets have been met and analysis and reporting of results (Armstrong, 2003).

Performance Measurement

Elements of what we nowadays call performance measurement have been in use in public administrations for quite a while (Gianakis, 2002; Halachmi, 2005). The New York Bureau of Municipal Research first developed a budgetary system based on work-load measured shortly before the Second World War. The Hoover-Commission recommended a switch towards performance-based budgeting in 1949. Programme outcome measures formed an integral part of the analysis required by the planning-programming-budgeting system back in the 1960s and were used in zero-based budgeting systems in the 1970s and 1980s. Performance targets were also an element of management-by-objectives implementations in the public sector in the 1970s.

In the 1980s and 1990s performance measurement again became a topic in the public sector in a situation when serious revenue shortfalls and changing attitudes towards the public sector made it necessary to find solutions other than the cut back management practised in the past decades. Nowadays, performance measurement is a central element of new public management, which is characterized by some authors as a global movement reflecting liberation management and market-driven management (Gianakis, 2002). Liberation management means that public sector managers are relieved from a plethora of cumbersome and unnecessary rules and regulations. Instead of the control of input factors, control should focus on outcome measures. Market-driven management seeks to create internal and external competition for budgetary resources in order to decrease X-inefficiency and budget-maximizing behaviour. Performance measures are necessary to create something like the private sector bottom line.

Jones and Kettle (2003) observe that over the past three decades, criticisms about government performance have surfaced across the world from all points of the political spectrum. They note that critics proclaim governments to be inefficient, ineffective, too large, too costly, overly bureaucratic, overburdened by unnecessary rules, unresponsive to public wants and needs, secretive, undemocratic, invasive into the private rights of citizens, self-serving, and failing in the provision of either the quantity or quality of services deserved by the taxpaying public. In short, as a rule government performance fails to meet expectations. This “failure” has a price. The nature of the cost we all pay for government failures is not necessarily of the same kind or of the same magnitude.

Given who the involved parties are in each case, e.g. elected and appointed officials, career civil servants, professionals within and outside government, service recipients and other beneficiaries of government service, those providing government with service and all tax payers, the costs may involve tangibles like money or intangibles like public trust, civic support or political opposition at the group level and frustration and stress at the individual level. The better-educated polity these days responds to perceived failures or questionable government operations by demands for greater accountability and transparency. In most cases these demands are being operationalized as popular requests for performance measurement and reporting (Bouckaert, 1995).

Fiscal stress that plagued many governments contributed to the growing call for better public performance, i.e. for less costly or less expansive government, for improved efficiency, and for increased responsiveness. As noted by Jones and Kettle (2003) high profile members of the business community, financial institutions, the media, management consultants, academic scholars and the general public all have pressured politicians and public managers to reform. So too have many supranational organizations, including OECD, the World Bank, and the European Commission. Accompanying the demand and many of the recommendations for change has been support for the application of market-based logic and private sector management methods to government. According to the Gartner Group in 2003, private companies spent over $1.5 billion on performance tracking tools (Edwards and Thomas, 2005).

According to Jones and Kettle (2003) the alleged success of market-driven solutions and business techniques such as customer satisfaction surveys, balance scorecards (BS), focus groups or certification of compliance with standards issued by organizations like the International Standards Organization (ISO) added momentum to the traditional pressure on the public sector to be more like business. This pressure was augmented within government by the growing ranks of public sector managers and analysts educated in business schools and public management programs.

King et al. (2002) assert that trying to measure how well a state's government is managed is maddeningly difficult. They go on to add that: There is growing concern among scholars that states may be adapting their behaviors to pass sometimes-arbitrary performance measures rather than improving public management per se. After so many years of experimenting with various schemes of performance measurements in the UK (Bovaird and Löffler, 2001) and in the US (Bennett and Hill, 2002) show convincing evidence that there is one preferred approach or a promising new paradigm for improving performance through measurement seems to be eluding us. A case in point is the American effort under the Government Performance and Results Act (GPRA) of 1993. This effort went through a number of transformations because; costly as it is, the expected improvements in performance never materialized (Bennett and Hill, 2002).

According to Gianakis (2002), while within the private sector the discussion about the revolutionary and not-so-revolutionary use of performance measurement was closely linked to the debate on increasing the effectiveness of strategic management systems and narrowing the gap between ambitious strategies and the annual planning, the debate within the public sector has been more complex. Here, from the very beginning, the discussion concentrated on the idea of improving external accountability and increasing internal efficiency at the same time.

Performance measurement is seen as a tool for improving public budgeting, promoting a better reporting system and modernizing public management.

Conceptual Framework

Kobia (2006) further highlights that the introduction of Performance contracting (PC) is to ensure that the public sector is transformed into being more focused and responsive to the needs of those it serves. The result will be a sector directing its energies towards delivering targeted results for Kenyans and utilizing resources more productively. The quality and productivity of expenditures and investment will be improved to ensure cost effectiveness and value-for-money. Performance contracting is about institutional as well as individual performance, both in quality and quantity. The key elements of PC are: Performance target setting: the process of setting performance targets for ministries/departments, groups or individuals in carrying out specific work assignments; 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; Performance monitoring and reporting; and, Performance appraisal: the process of evaluating 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 PC 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 government’s commitment to improving the performance of public service delivery and is based on agreed national principles and values.

Shields and Tajalli (2006) have identified several types of conceptual frameworks (working hypotheses, descriptive categories, practical ideal type and models of operations research and formal hypotheses) for the field of public administration. The frameworks are linked to particular research purposes (exploration, description, gauging, decision making and explanation/prediction).

For this study, the researcher adopted the following variables to develop a conceptual framework: The independent variables included: Performance Contract management and target setting, service Delivery through performance contracting and management practices under performance contracting which affect the dependent variable, that is, the performance of State Corporations in Kenya was assessed by gauging the extent to which potential performance contract outputs had been realized by the State Corporation in the last financial year. Meanwhile, the intervening variables included the political environment and economic environment. The study’s conceptual framework is illustrated in Figure 1.

RESEARCH METHODOLOGY

Research Design

The Researcher adopted descriptive survey research design as it was appropriate to describe and portray characteristics of an event, situation, and group of people, community or population (Chandran, 2004). Consequently, the researcher undertook a survey, which involved collection of quantitative data from members of the population by use of questionnaires. Quantitative research design includes discrete numbers or quantified data (Cooper and Schilder, 2003). This research design results with numerical information or statistics, which can be realized by structuring the research questionnaire with pre-determined closed and scaled questions. This design was appropriate because of the comparative analysis that was expected and the cross-sectional nature of the data. Moreover, the design allowed the researcher to collect data and information using a standard questionnaire from the selected State corporations in Kenya.

The survey design was preferred because the researcher intended to collect cross sectional data on the effects of performance contracting on the performance of state corporations in Kenya. Additionally, it allowed large amounts of data to be collected from a substantial population in an efficient manner. Although survey design is time consuming, the method is useful as it allows comparisons to be made easily from the results, (Saunders, 2003). The research design was therefore descriptive.

Target Population

Mugenda and Mugenda (2003) define population as an entire group of individuals, events or objects having a common observable characteristic. The target population of this study consisted of all State corporations in Kenya. For the purposes of this study, the sampling frame consisted of all the State corporations listed by the Office of Public Communications as at 31st December 2010. The researcher adopted this list as it was the most comprehensive official source of Kenyan State corporations. Accordingly, there were 124 listed State corporations in Kenya (see appendix 1). The CEO who had implemented performance contracting in the State Corporation was selected as the respondent to the questionnaire. The total target population was therefore 124 CEOs.

Sampling Procedure and Sample Size Determination

To overcome the limitations of this study, purposive sampling procedure was adopted. According to Cooper and Schilder (2003), purposive sampling allows the researcher to use hand-picked cases or subjects for the study which have the required information as per the objectives of the study. The study employed purposive sampling technique to select thirty five (35) State Corporations which have their headquarters in Nairobi (see appendix 2). According to Mugenda and Mugenda (2003), for such a study a sample size of n=30 is sufficient. The researcher relied heavily on primary data which was collected by use of a structured questionnaire.

Data Collection Instruments and Procedure

The data collected was quantitative and qualitative in nature and was collected using a structured questionnaire containing both open ended and closed questions. A questionnaire, as the data collection instrument of choice is, easy to formulate and administer and also provides a relatively simple and straightforward approach to the study of attitudes, values, beliefs and motives (Robson, 2002). Questionnaires may also be adapted to collect generalized information from almost any human population and results to high amounts of data standardization. It also allows collection of large amounts of data at relatively low costs within a short period alongside a big allowance of anonymity which encourages frankness from the respondents especially in sensitive issues like governance and/or management.

Questionnaires were preferred because they ensured a high response rate as the questionnaires were distributed to respondents to complete and collected by research assistants. They also required less time and energy to administer, offered the possibility of anonymity because subjects' names were not required on the completed questionnaires and they had less opportunity for bias as they were presented in a consistent manner. The questionnaires were distributed by research assistants through ‘drop and pick’ method and in some cases by email. There was follow-up to ensure that questionnaires were collected on time and assistance to the respondents having difficulty in completing the questionnaires was offered. Follow-up calls were then made to ensure that the questionnaire was dully filled within a reasonable period of time. This ensured that the information gathered was valid, reliable and suitable for this study.

Data Analysis

Mugenda and Mugenda (2003) describe data analysis as the process of data coding, data entry and the common methods used in data analysis. Collected data was edited, coded and analyzed using descriptive analysis such as frequency, percentages and mean as measures of central tendency, Microsoft Excel 2007 and Statistical Package for Social Sciences (SPSS) was also used to analyze the data. The results were then presented using pie-charts, graphs and tables and descriptive statistics such as mean, percentage and frequency were used to describe the study’s research findings.

DATA ANALYSIS AND FINDINGS

Performance Contracting demographics in State Corporations in Kenya

Research finding indicated that 84% of the target population required employees to sign performance contracts before commencing with their duties; hence performance contracting in these organizations was mandatory. This finding illustrates that performance contracting in State Corporations in Kenya is mostly obligatory rather than voluntary. Obligatory performance contracting is intended to improve public accountability. This is further supported by value-for-money reporting, information on how the public aims are fulfilled, giving information about the quality of public services, performance data of regulated industries published by the regulatory bodies, and quality-of-life reporting are elements providing greater transparency for the general public. The remaining 16% of the respondent organizations were not considered for further analysis as they did not meet the performance contracting criteria.

Findings relating to the length of time that the State Corporations had implemented performance contracting indicated that 44% have done it for less than five (5) years, 36% between five (5) and ten (10) years, while the remaining 20% between eleven (11) and twenty (20) years. This finding indicates that majority of Kenyan State Corporations have implemented PC in the short term, that is, less than five years, hence it was difficult to infer the long-term effect and/or impact of performance contracting on the performance of these organizations.

Findings relating to the percentage and mean of the study's conceptual framework independent variables with regard to their influence on the performance of State Corporations in Kenya indicated that majority of the respondents (40%) considered performance contract management and target setting; and (52%) management practices influencing implementation of performance contracting to influence implementation of performance contracting between 81% and 100% in State Corporations in Kenya. Majority of the respondents (36%) considered service delivery through performance contracting to influence implementation of performance contracting between 61% and 80% in State Corporations in Kenya. This finding indicates that performance contract management and management practices are a priority in the implementation of performance contracting within the State Corporations in Kenya.

Findings relating to the rating of the rationale for implementing performance contracting among the organizations studied indicated that the main reason for implementing PC was to comply with the government requirements and pressure from influential individuals possibly from the line Ministries where the parastatals were domiciled. The respondents were indifferent as regards to the validity of PC targets and the personal benefits of successfully implementing the change clearly visible by employees; and adequate availability and accessibility of information about PC by all stakeholders at the state corporation as their means drew closer to three.

This finding indicates that the implementation of Performance Contracting in State Corporations in Kenya has in general, induced the public service to become more oriented towards customers, markets and performance, without putting the provision of essential public services into jeopardy. It can also be inferred that the introduction of performance contracting has led to increased management by results, which is used to improve the performance of an organization as it emphasizes better the human resource management. However, the fact that the respondents were indifferent on target and the personal benefits of successfully implementing the change being clearly visible and that the adequate availability and accessibility of information about PC, indicates that communication regarding the aim, processes, benefits and evaluation of PC in State Corporations in Kenya is not sufficient.

Perceived Influence of Performance Contracting on Performance

Findings indicated that 36% of the respondents felt PC was important in its influence on organizational performance. 28% perceived PC to be very important in its influence on organizational performance. Consequently, we can infer that performance contracting is indeed perceived by majority of the respondents to be either important or very important in influencing the performance of these organizations.

Findings indicated that 64% of the respondents felt PC either influenced or greatly influenced organizational performance. This is homologous to their rating of the influence of PC on managerial performance where 64% answered the affirmative when asked PC influences managerial performance. Consequently, we can infer that performance contracting is indeed perceived to influence the performance of these organizations.

Regression Analysis

The study also aimed at determining how the effect of performance contracting influences managerial performance and enterprise performance. In the previous section, we presented the results of the extent to which the respondents felt PC influenced managerial and organizational performance. To triangulate these findings, we performed simple linear regression analysis. In order to achieve these two objectives, we fitted two simple linear regression models to test the influence of performance contracting on management performance and organizational performance respectively presented in equation 1 and 2:

$$MPERF = \beta_{01} + \beta_{11}(PC) \quad (1)$$

Where MPERF = Managerial Performance and PC is Performance contracting measure.

$$OrgPERF = \beta_{02} + \beta_{21}(PC) \quad (2)$$

Where OrgPERF = Organizational Performance and PC is Performance contracting measure.

The outcomes of the linear regression analysis are presented in table 1 and 2 respectively. Table 1 illustrates Managerial Performance ANOVA analysis and indicates that the significance value is 0.000, which is less that 0.05, thus the model is statistically significant in predicting how performance contracting affected managerial performance of State Corporations in Kenya at 95% level of confidence. The model summary explains 85.8% of variations in managerial performance as represented by performance contracting (R2). The table further illustrates that there is a strong positive relationship between managerial performance and the implementation of performance contracting (Beta = 0.926), whereby enhanced realization of potential outputs of performance contracting leads to an increase in managerial performance. This therefore means that other factors not studied in this research contribute 14.2% to managerial performance. Hence, further research needs to be conducted in order to investigate these other factors which had an impact on performance contracting and managerial performance at State corporations in Kenya.

Table 1: Regression results for PC versus Managerial Performance

PC versus Managerial Performance (ANOVA), R-square = 0.858						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	57.468	1	57.468	139.247	0.000
	Residual	9.492	23	.413		
	Total	66.960	24			
PC versus Managerial Performance (Coefficients)						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	9.897	.438		22.613	.000
	MPERF	.345	.029	.926	11.800	.000

Table 2 illustrates Organizational Performance ANOVA analysis and indicates that the significance value is 0.000, which is less that 0.05, thus the model is statistically significant in predicting how performance contracting affected organizational performance of State Corporations in Kenya at 95% level of confidence. The model summary explains 81.1% of variations in organizational performance as represented by performance contracting (R^2).

Table 2: Regression results for PC versus Organizational Performance

PC Versus organizational performance (ANOVA), R-square = 0.811						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	54.274	1	54.274	98.397	.000
	Residual	12.686	23	.552		
	Total	66.960	24			
PC Versus organizational performance (Coefficients)						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	12.361	.761		16.249	.000
	OrgPERF	.233	.023	.900	9.920	.000

The table further illustrates that there is a strong positive relationship between managerial performance and the implementation of performance contracting (Beta = 0.900), whereby enhanced realization of potential outputs of performance contracting leads to an increase in organizational performance. This therefore means that other factors not studied in this research contribute 19.9% to organizational performance.

CONCLUSIONS

This study had three objectives namely: a) to determine priorities set out in the implementation of performance contracting at State corporations in Kenya; b) to determine the extent to which performance contracting influences managerial performance of State corporations in Kenya; and, c) to determine the extent to which performance contracting influences enterprise performance of State corporations in Kenya. To achieve these objectives we collected data from government parastatals that had implemented performance contracting and analyzed it using descriptive and regression analysis.

With regards to the priorities set out in the implementation of performance contracting at State Corporations in Kenya majority of the corporations make it mandatory for employees to sign performance contracts before commencing with their duties and that this has been undertaken by majority of the firms over the last five years. It can therefore be concluded that Performance Contracting in parastatals is a fairly new concept introduced and enforced by the Kenyan government. Though some parastatals continue resist, these results indicate there are benefits in adopting PC among these organizations and the resistance can be ascribed to the usual organizational discomfort with change.

With regard to the extent to which PC influences managerial and organizational performance of State Corporations in Kenya majority of the respondents indicated that both managerial and organizational performance were significantly influenced through the implementation of performance contracting. Specifically, the influence of performance contracting on managerial performance had led to an increase in management's productivity because of PC and the rate of achieving organizational goals and objectives had increased, while that on organizational performance had led to an increase in service delivery to the public by ensuring that top-level managers are accountable for results.

These findings were further supported by the regression results which indicated that the model summary explained 85.8% and 81.1% of variations in organizational and managerial performance respectively, as represented by performance contracting (R^2). Findings further illustrated that there was a strong positive relationship between organizational and managerial performance and the implementation of performance contracting. In conclusion therefore, the implementation of Performance Contracting in State Corporations in Kenya has in general, induced the public service to become more oriented towards customers, markets and performance, without putting the provision of essential public services into jeopardy. Hence, the introduction of performance contracting has led to increased management by results, which have in turn led to the realization of potential performance contracting outputs in the last financial year within the State Corporations in Kenya.

RECOMMENDATIONS

Based on the conclusions of this study, the researcher recommends the following with regard to the effects of performance contracting on the performance of state corporations in Kenya:

1. In general, there is need for a solid legal framework, which sets out the basic premises and the status of the contract. This will enhance saving, internal management improvement and better accountability and may avoid ad hoc and fragmented solutions.

2. To the management of the State Corporations in Kenya, the researcher recommends that the signing of performance contracts should be made mandatory for every employee. However, performance contracting should not be made the only performance management tool with regard to managing employee performance and overall organizational performance. Other management tools including but not limited to: balanced score card, building a foundation for empowerment, self-evaluation assessments, professional development planning, coaching and feedback. In addition, management should ensure that performance is matched with reward systems that could incorporate both financial and non-financial rewards.

3. To policy makers, regulators and government in general should be sensitive when drafting performance contracts and enforcing their implementation in State Corporations in Kenya to ensure long-term success in the implementation of performance contracting within State Corporations in Kenya. Specifically, government should ensure that the following continues to be emphasized: increase in the autonomy of the various performance measurement factors; increase in controlling and monitoring information; and continuous evaluation and improvement of the existing strategic plans as they are considered to be very important in determining success in the implementation of performance contracting at the State Corporations in Kenya. Moreover, policy makers should increasingly incorporate professional expertise and adopt best international practice when drafting, implementing and appraising performance contracting within the Kenyan public sector.

4. To the politicians, the political top must respect the operational autonomy of the contracted organizations. Knowledge of strategic planning, development of work plans and monitoring capacities among the staff is central to the success of PC and the political support as well as their technical knowledge is crucial.

5. To the public service, contract management should be accompanied by performance-oriented change in the public service structure and management culture. Culture that empowers staff to embrace and manage change is necessary. Management instruments, focusing on performance and cost in the field of human resources and financial management should be developed in an integrated manner. There is need for a good definition of outputs and solid performance measures. This requires a well-defined training program for the public servants to support implementation.

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APPENDICES

Figure 1: Conceptual Framework