

**ASSESSING THE EFFECTIVENESS OF PERFORMANCE CONTRACTING ON
FINANCIAL PERFORMANCE
A CASE STUDY OF STATE CORPORATIONS IN KENYA.**

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**RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF BUSINESS
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Abstract

The study is set to establish the effects of performance contracting on financial performance of state corporations in Kenya. The aim of performance contracting in parastatal was to improve the financial performance. This study aimed at tracing the ramifications of performance contracting since its inception in state Corporations in 2004 up to 2007. The main objective of the study was to investigate the effects of performance contracting on the financial performance of the state corporations. Specifically the study aimed to find out implications of implementation of performance contracting on revenue levels of state corporations. The study also aimed at establishing effects of performance contracting on cost management of state corporations. The research questions addressed were; what implications performance contracting has on revenue levels, what effect it has on cost management.

The study design was a descriptive study of state corporations in Kenya. The target population was 125 state corporations who had signed performance contracting in 2006/2007. A Sample of 13 State Corporations falling under the financial category was tested. The sample was selected through stratified random sampling. Data used was both primary and secondary, primary data was collected using questionnaires while secondary data was obtained. Data was analysed using descriptive statistics and regression analysis. Data was presented through tables, graphs and figures.

The study found out that according to the respondents Performance Contracting has had an impact on the financial performance. The study found that Performance Contracting has affected the incomes of the parastatals in a positive way. Cost of the parastatals were also reduced after performance contracting as it has brought about efficiency and minimised wastage of funds as well enabling funds to be channelled towards projects with measurable results. The respondents indicated that performance contracting has led to a culture change on the usage of parastatal resources by management and other employees leading to significant cost reductions. Since PC enactment there has been

setting targets costs and adhering to budgets in parastatal. Each employee endeavours to operate within the budget constraints.

The study also found out that performance contracting has made the parastatal more transparent and accountable. There has been improvements attributed to the fact that Performance contracts are based on a balanced score card that covers all the aspects of business. Everybody is aware of the deliveries on which his/her performance is pegged. Since the evaluation is conducted annually and the results of the evaluation are made public with the best parastatals being named as well as the worst performing known according to the ranks. This has led for parastatals striving to make it to the top of the list. Also since inception of PC, quarterly reports and annual accounts, on performance contracts indices are submitted to the committee charged with the task of evaluating and ranking state corporations.

The study concludes that performance contracting is an initiative that has had a great impact on the operations of parastatal not only in Kenya but worldwide. The study recommends that other tools be introduced for ranking performance across organisations and ministries as performance contracting is intended to be a tool that should be used to determine to what extent an organisation has achieved mutually agreed upon financial and operational targets in a given year.