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**Does performance contracting matter?**

The moderating influence of performance contracting on the relationship between strategy implementation and performance of Kenya State Corporations

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*Full Length Research Paper*

# Does performance contracting matter? The moderating influence of performance contracting on the relationship between strategy implementation and performance of Kenya State Corporations

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Strategy implementation has been established to influence organizational performance. However, its influence on organizational performance could be subject to a number of other variables including performance contracting. The mutually agreed contracts through negotiations between principals and agents are conventionally used with the purpose of enhancing implementation of strategy. This study therefore sought to investigate the effects of performance contracting on the relationship between strategy implementation and performance of Kenyan state corporations. The results showed that performance contracting significantly moderated the relationship between strategy implementation and performance. Markedly, this moderating effect was negative which was conspicuously unconventional. It is most likely, from the findings, that there exists a disconnect between performance contracting and strategy implementation in Kenyan state corporations. The study further observed that although performance contracting was established to operationalize strategy implementation, it seems the process has acquired a trajectory of it's on. The study recommends a relook at the process to ensure a linkage between performance contracting and strategy implementation to ensure better performance of Kenyan state corporations.

**Key words:** Performance contracting; strategy implementation; state corporations; organizational performance.

## INTRODUCTION

Managers the world over are under pressure to balance their short term operational concerns with long-term strategic precedence (Kaplan and Norton, 2008). Strategic management's main focus has been to attempt to study variables that influence organizational performance. Strategy implementation has been established to influence organizational performance (Shah, 1996; Cater & Pucko, 2010). However, its influence on organizational performance could be subject to a number of other variables including performance contracting. Performance contracting is an important catalyst of strategy implementation. It has been posited to enhance the relationship between strategy implementation and organizational performance.

According to Balogun (2003) performance contracts are used to enhance the process of strategy implementation. Strategy implementation is the institutionalization and operationalization of strategic plans. It is the process of ensuring that all the developed plans are executed to achieve desired results. Success can only be attained when well-conceived plans are implemented. Most organizations have been found to establish very good plans that never leave the shelves due to lack of emphasis on implementation. This is the reason for conceptualization of performance contracting. Performance contracting is a contractual agreement process to execute a service according to agreed-upon terms, within a fixed time period and with a stipulated use

of resources and performance standards (Domberger, 1998). It is one of the tools used in performance management. However, scanty empirical evidence exists on the influence of performance contracting as a process on the relationship between strategy implementation and performance.

Kenyan state corporations comprise the largest segment of public sector organizations (GoK, 2013). They are businesses owned by government for the purpose of carrying out commercial and non-commercial functions. They are also critical to building the capability and technical capacity of the state in facilitating and/or promoting national development. Further, they are important instruments in improving the delivery of public services, including meeting the basic needs of citizens. Indeed, they have been variously applied to the creation of good and widespread employment opportunities in various jurisdictions

During strategy implementation of Kenya state corporations, annual work plans are extracted through which performance targets are set, negotiated and contracts signed (GoK, 2013). It is along these contract details that performance is measured. This entire process was expected to enhance overall organizational performance. However, according to the GoK (2013) while output of some state corporations had increased, creating employment opportunities, enhancing service delivery and even paying better dividends, others have continuously underperformed. According to KIPPRA (2013) the contribution of Kenyan State owned Corporations to GDP in nominal terms has been increasing from 9.54 percent in 2008/2009 to 11.64 percent in 2010/2011, based on internally generated income. With proper interventions their contribution to the GDP could double (KIPPRA, 2013). The poor performance of some Kenyan state corporations could likely be attributed to the relationship between strategy implementation and performance contracting.

The influence of performance contracting on the relationship between strategy implementation and organizational performance is underpinned by Result Based Management Theory (RBMT) (Balogun, 2003). RBMT is a performance based management theory that explains organizational performance as a function of result based management tools. The proponents of the theory assert that organizations seek to improve performance through change efforts that place more efforts on results rather than processes (Greer et al., 1999). This is achieved by imparting managerial and operational autonomy to managers and ensuring accountability for results by managers, and puts more emphasis on results rather than processes. The theory further hold that result- based management tools are useful in articulating clearer definitions of objectives and supporting innovative management.

Conversely, performance can be attributed to the stakeholder theory. The proponents of the stakeholder

theory postulate that organizational performance is a function of how well an organization satisfies its stakeholders and focuses on building closer customer relationships (Berry, 1983). Shareholders are an important constituent of the many stakeholders and profits are a critical output but not necessarily the main one. Further, this theory states that the interconnected networks of stakeholders affect the decision making process and in essence effectiveness and outcomes of the firm (Freeman, 1984). Managers are thought of as agents who should manage the organization for the benefit of its stakeholders. From the stakeholder perspective, organizational performance is a function of how well the organization has served the different stakeholders of the firm (Freeman, 1984). Stakeholder theory has caused evolution of performance measurement from the conventional measures of economic prosperity which are return on assets and growth in sales to include non-financial and less tangible measures such environmental integrity and social equity (Hubbard, 2009; Kaplan & Norton, 1992).

According to Hubbard (2009), measurement of performance has evolved over time from outdated financial measures (March & Sutton, 1997) which focused exclusively on the shareholder to stakeholder based approaches including the Sustainable Balanced Score Card SBSC (Kaplan & Norton, 1992) and Triple Bottom Line (TBL) approach (Elkington, 1997). This is despite there being consensus among scholars that economic prosperity measures which focused only on the shareholders are still valid and relevant (Yip et al., 2009), but these needed to be enhanced to include contemporary, intangible and externally oriented measures (Kinuu, 2014). In line with the emerging stakeholder theory, which calls for assessment of organizational performance against the expectations of all its stakeholders organizational performance measurement has moved from being centered on economic prosperity of shareholders value to include all its stakeholders which include environmental integrity and social equity measures (Hubbard, 2009).

### **Strategy implementation, performance contracting and performance**

Performance contracting is a critical component which guarantees performance during strategy implementation (De Bruijn, 2002). Superior organizational performance is likely when the process of performance contracting is introduced. Although performance contracting has been referred to in different terms in different contexts, the process has been one of the effective ways of implementing strategic plans (Uusikyla & Virtanen, 1999). Performance contracting can be used to emphasize outputs and results instead of inputs and rules and to improve target-setting and follow-up. In this process, performance contracts have played an important role. The contractual model has replaced the old hierarchical,

compliance-based guidance and control system (OECD, 1999). Result negotiations and performance contracts represent decentralized and flexible ways of making government agencies more cost-conscious, responsible and accountable.

Performance management has also been considered as one of the main instruments for enhancing strategic thinking and prioritization. Organizations that have adopted performance contracting have been found to encourage greater openness and accountability, and thus yield better performance (Brown et al., 2007; Trivedi, 1994). A Performance contract is a strategy implementation instrument used to define responsibilities and expectations between parties to achieve mutually agreed results within a specified period (Mutembei et al., 2014). It acts as a useful tool for articulating clearer definitions of objectives and supporting innovative management, to achieve measurable results within a specified period of time (Letangule & Letting, 2012). The results to be achieved within a specified period of time are drawn from the organization's strategic plan which covers a longer period than the performance contract which is implemented within a period of one year (Obong'o, 2009).

Performance can then be measured against the standards or targets signed for at the start of implementation period. Performance contracting has been found to be quite successful in a large and diverse set of countries such as France, Pakistan, South Africa, Australia, Canada, Malaysia, South Korea, Ghana, and India (Hope, 2013; Xavier, 2010). Performance contracting deliverables are derivatives of strategy implementation process. The effectiveness of deriving tasks from strategic objectives for implementation process informs how performance contracting complements strategy implementation process to impact firms performance. According to England (2000), a performance contract addresses economic, social or other tasks that an agency has to discharge for economic performance or for other desired results. It organizes and defines tasks so that management can perform them systematically, purposefully and with reasonable probability of accomplishment. It also assists in developing points of view, concepts and approaches for determining what should be done and how to go about it. Performance contracts comprise determination of mutually agreed performance targets, review and evaluation of periodic and terminal performance. During strategy implementation, performance contracting allows for the setting of targets and the development of indicators against which performance can be measured later (Xavier, 2010; Trivedi, 1994).

Although Performance contracting has been viewed as a useful strategy implementation tool for articulating clearer definitions of objectives and supporting new management monitoring and control methods in some instances it has not achieved the desired goals (Trivedi,

1994). This has been attributed to operationalization. It can therefore be postulated that performance contracting moderates the relationship between strategy implementation and organizational performance. Performance contracting has been hailed for its ability to enhance strategy implementation by articulating clearer definitions of goals and supporting creative and innovative methods which guarantee results (Greer et al., 1999). In the case of public sector performance contracting is a management tool for ensuring accountability for results by public officials, because it measures the extent to which they achieve targeted results Kumar (1994). The common purposes of performance contracting are to clarify the objectives of service organizations and their relationship with government, and to facilitate performance evaluation based on results instead of conformity with bureaucratic rules and regulations (Mallon, 1994; Islam, 1993).

Performance contracting is generally aimed at enhancing performance through ensuring effective implementation of strategic plans (Prajapati, 2009; Muthaura, 2007, Kobia & Mohammed, 2006). Employees should have a clear understanding of what the organization is trying to accomplish and what role they play in making it happen (Pfeffer, 1998). Thus understanding and participating in strategy formulation ensures better implementation. Performance can be enhanced by focusing on results and avoid the risk of losing sight of the outcomes that are required to meet the organization's goals (Gakure et al., 2013). Performance contracting's role is therefore to create the linkage between the objectives as well as strategies to the results during implementation. It can thus be postulated that performance contracting has an influence on the relationship between strategy implementation and performance. From this proposition, Hypothesis (H<sub>1</sub>) was stated as:

H<sub>1</sub>: Performance contracting has a significant moderating influence on the relationship between strategy implementation and organizational performance

### **Research problem**

While in practice performance contracting appears to play a critical role in ensuring strategy is implemented, there appears to be scanty conceptual, contextual and empirical literature on the relationship between strategy implementation, performance contracting and performance. On the other hand, a number of studies have been undertaken in state corporations globally. Jonathan (2009) established that state corporations in China often juggle with multiple, unclear, or conflicting financial and social objectives such as providing blanket low-cost telephone service. Semmar (2012) concluded that structural reforms, modernization and liberalization had a positive bearing on financial performance of Moroccan state corporations. In Kenya, Kobia and Mohamed (2006) established that performance of

Kenyan state owned corporations was impeded by lack of adequate resources, resources not being released on time, over ambitious performance contract targets and unplanned staff transfers.

These studies however, did not underscore the role of strategy implementation as well as external environment. Ongeti (2014) established that organizational resources had an influence on performance of Kenyan state owned corporations while Mkalama (2014) found that top management demographics have an influence on performance of the same organizations. Similarly, Gachunga (2010) studied the effects of performance management systems and perceptions of organizational justice in Kenyan state owned corporations. Okwiri (2011) researched on the relationship between ISO 9001 certification status and operational performance of government agencies in Kenya. None of these studies conceptualized the role of performance contracting on the relationship between strategy implementation and performance within the Kenyan State owned Corporation. This study therefore sought to answer the question; What is the influence of performance contracting on the relationship between strategy implementation and performance of Kenyan state corporations?

## METHODOLOGY

There are two main research philosophies as used in social science research, namely positivism and phenomenology. Positivism is an epistemological position based on the assumption that the observer is independent of what is being observed and that its properties should be measured through objective criteria rather than being inferred subjectively (Lythcott & Duschl, 1990; Mugenda & Mugenda, 2003). Conversely, phenomenology is about theory creation or formulation. It focuses on the immediate experience where the researcher draws meanings by interpreting experiences that are observed during the researchers' involvement in the phenomena (Blau, 1977). It is based on the belief that research involves gathering large amounts of information through in-depth interviews in order to uncover meanings and understanding of the issues being studied (Cavaye, 1996). This study was anchored on the positivistic research philosophy because it was about theory testing like similar studies by Aosa (1992), Ongeti (2014), Murgor (2014) and Machuki (2011). The study adopted a descriptive cross-sectional survey. Cross sectional studies are carried out once and represent a snapshot of a point in time. Cross-sectional surveys enable collection of data across a large number of organizations at one point in time.

According to GoK (2015) there were 178 Kenyan state owned corporations spread across all 18 ministries as at 30th January 2015. However, at the time of the study, 70 SCs had been earmarked for dissolution, merger or transfer of functions to the newly created county governments. The 70 SCs were eliminated from the study

leaving 108 state corporations as the population of the study. Primary data was collected using a semi-structured questionnaire. The questionnaire comprised of closed ended questions and a few open ended ones, guided by conceptual and empirical literature. All the 108 corporations were approached and served with the questionnaire out of which 95 filled and returned resulting into a response rate of 88 percent. This rate compares well with previous studies in the Kenyan state corporations. Awino and Mutua (2014) had a response rate of 77 percent; Ongeti (2014) had 65 percent while Mkalama (2014) had 82 percent. High response rates yield results that can be better inferred to a population (Awino, 2011; Newbert, 2008).

The independent variable of the study was strategy implementation which was operationalized along evidence in literature including Sorooshian et al (2010) and Jalali (2012). Performance contracting which was a moderating variable was operationalized using evidence in literature as described established by Obong'o (2008) and Balogun (2003) as well as GoK (2013). According to extant literature, performance contracting process is characterized by five constructs namely involvement, negotiation, cascading, target setting, and monitoring and evaluation. Organizational performance which was the dependent variable was operationalized along the Kaplan and Norton (1992) BSC model as well as Elkington (1997) and Hubbard (2009). Table 1 provides summary of operationalization of the study variables

## DATA ANALYSIS AND RESULTS

The objective of the study was to determine the moderating effect of performance contracting on the relationship between strategy implementation and performance. This was drawn from evidence in literature which suggested that indeed performance contracting can accelerate or decelerate the relationship between strategy implementation and performance contracting. From this proposition, Hypothesis ( $H_1$ ) was stated as:

$H_1$ : Performance contracting has a significant moderating influence on the relationship between strategy implementation and organizational performance

The study used both hierarchical regression analysis as well as the interaction term method to test for the moderating influence of performance contracting on the relationship between strategy implementation and performance of state corporations in Kenya. Scholars have postulated that hierarchical regression analysis helps establish the change of statistical parameters and the significance of the models when testing for moderating effects (Kinuu, 2014). Tests of moderation using a performance contracting interaction term were done in order to compare analysis obtained from hierarchical regression analysis. The performance contracting interaction term was obtained by; first creating standardized variables of strategy

Table 1: Operationalization of the study variables

Variable	Operational indicators	Supporting literature	Measurement scale	Questionnaire items
Strategy Implementation (Independent )	Institutionalization- getting (Skills, systems, structures, processes and resources) aligned to the strategy.	Jonathan (2009) Sorooshian (2010) and Jalali (2012)	5-Point Likert scale	Section B
	Operationalization (Action description, setting timelines, responsibility, Defining outputs)			
Performance Contracting (Moderating)	Negotiation (Freedom, terms, public participation)	Letangule and letting ,2012 Obong'o, 2009 Balogun, 2003	5-point Likert scale	Section C
	Cascading (operational autonomy)			
	Target setting (SMART Targets)			
	M & E (Formative, Summative)			
	Involvement (Representation )			
Complexity (Predictability and none predictability)				
Organizational performance (Dependent)	Financial, Budget Discipline	Kaplan and Norton (1992), Elkington (1997), Hubbard (2009), Kenyan PC cycle Guidelines (2009)	5- point Likert scale	Section D
	Customer focus			
	Business processes (internal business processes)			
	Organizational learning			
	Social equity (CSR)			
Environmental integrity (Environmental equity)				

Table 2: Influence of strategy implementation on organizational performance as moderated by performance contracting

Model Summary										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.947 <sup>a</sup>	.897	.895	.13284	.897	401.709	2	92	.000	
2	.968 <sup>b</sup>	.936	.931	.10750	.039	10.697	5	87	.000	
a. Predictors: (Constant), Operationalization, Institutionalization										
b. Predictors: (Constant), Operationalization, Institutionalization, Cascading, Involvement, Negotiation, Monitoring and Evaluation, Target Setting										
ANOVA <sup>a</sup>										
Model	Sum of Squares	Df	Mean Square	F	Sig.					
1	Regression	14.176	2	7.088	401.709	.000 <sup>b</sup>				
	Residual	1.623	92	.018						
	Total	15.800	94							
2	Regression	14.795	7	2.114	182.903	.000 <sup>c</sup>				
	Residual	1.005	87	.012						
	Total	15.800	94							
a. Dependent Variable: Performance										
b. Predictors: (Constant), Operationalization, Institutionalization										
c. Predictors: (Constant), Operationalization, Institutionalization, Cascading, Involvement, Negotiation, Monitoring and Evaluation, Target Setting										
Coefficients <sup>a</sup>										
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.				
		B	Std. Error	Beta						
1	(Constant)	.247	.160		1.548	.125				
	Institutionalization	.954	.076	.778	12.480	.000				
	Operationalization	.205	.066	.193	3.098	.003				
2	(Constant)	.175	.146		1.197	.235				
	Institutionalization	.763	.154	.623	4.962	.000				
	Operationalization	.224	.084	.211	2.666	.009				
	Involvement	.134	.043	.121	3.154	.002				
	Negotiation	-.066	.021	-.132	-3.224	.002				
	Cascading	.024	.023	.037	1.051	.296				
	Target Setting	.165	.057	.188	2.909	.005				
	Monitoring and Evaluation	-.069	.054	-.067	-1.272	.207				
a. Dependent Variable: Performance										

implementation and performance contracting, and secondly multiplying the standardized variables. Table 2

presents the results of test of moderation done using the hierarchical method.

**Table 3:** Influence of strategy implementation on organizational performance as moderated by performance contracting – interaction term analysis

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.972 <sup>a</sup>	.944	.943	.09818		
a. Predictors: (Constant), Moderator_PC, Strategy Implementation, Performance Contracting						
ANOVA <sup>a</sup>						
Model	Sum of Squares	d.f	Mean Square	F	Sig.	
1	Regression	14.923	3	4.974	516.067	.000 <sup>b</sup>
	Residual	.877	91	.010		
	Total	15.800	94			
a. Dependent Variable: Performance						
b. Predictors: (Constant), Moderator PC, Strategy Implementation, Performance Contracting						
Coefficients						
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	
	B	Std. Error	Beta			
1	(Constant)	.566	.113		5.007	.000
	Strategy Implementation	1.385	.074	1.159	18.784	.000
	Performance Contracting	-.231	.070	-.205	-3.306	.001
	Moderator_PC	.055	.009	.151	6.073	.000

a. Dependent Variable: Performance

Results in table 2 show that performance contracting had a moderating influence on the relationship between strategy implementation and performance using the hierarchical method. Performance contracting incrementally explained performance by 3.9 percent ( $R^2 \Delta = 0.039$ ,  $F \Delta = 10.697$ ) beyond the effect of strategy implementation. The moderating influence change in F ratio had a p-value of 0.000. Since the calculated p-value for the change was less than 0.05 it implied that there was a significant change on the relationship between strategy implementation and performance due to performance contracting.

The F tests for both the direct model and moderating model were 401.709 and 182.903, respectively and the p-values were both 0.000 implying that the models were significant at predicting the results. Additionally, the moderating effect did not alter the significance of the direct model. The analysis of t-test values showed significant results for institutionalization, operationalization, involvement, negotiation, and target setting. Equation 1 explains the model of the moderating influence of performance contracting.

Performance = 0.175 + 0.763 Institutionalization + 0.224 Operationalization + 0.134 Involvement - 0.066 Negotiation + 0.024 Cascading + 0.165 Target Setting - Equation 1

The model shows that a unit change in institutionalization, operationalization, involvement, negotiation and target setting will result in organizational performance changing by factors 0.763, 0.224, 0.134, -0.066 and 0.165, respectively. Notably, negotiation was found to have a negative coefficient which was statistically significant, implying that negotiations had a negative impact on the relationship between strategy implementation and performance. Similarly, the constant

and cascading were found to be not statistically significant. The resultant model was therefore represented in the amended Equation 2;

Performance = 0.763 Institutionalization + 0.224 Operationalization + 0.134 Involvement - 0.066 Negotiation + 0.165 Target Setting - Equation 2

Table 3 shows the results of the analysis done – using the interaction term method- to establish the moderating influence of performance contracting on the relationship between strategy implementation and performance.

As shown in table 3, strategy implementation explained 94.4 percent ( $R^2 = 0.944$ ) of organizational performance while being moderated by performance contracting. The t-value for the moderator was 6.073 at a calculated p-value of 0.000 implying that the moderating influence was significant. The regression model was significant at F ratio = 516.067 with a p-value of 0.000. Since the calculated p-value was less than 0.05, this indicated that the moderating model was robust enough to explain the relationship between the study variables. The analyses of t-test values showed significant results for strategy implementation, performance contracting and the interaction term. Equation 3 explains the model of the moderating influence of performance contracting.

Performance = 0.566 + 1.385 Strategy Implementation - 0.231 Performance contracting + 0.055 Interaction term - Equation 3

The model shows that a unit change in strategy implementation, performance contracting and moderation effect will result in organizational performance changing by factors 1.385, -0.231 and 0.055, respectively. Conspicuously, the study recorded a negative coefficient for performance contracting during this moderation, meaning that performance contracting had a negative

influence on the relationship between strategy implementation and performance contracting.

There was agreement between the hierarchical regression analysis technique and regression analysis using the interaction term method in establishing the moderating effect of the performance contracting on the relationship between strategy implementation and performance of state corporations in Kenya. In both cases, the moderation effect was shown to be significant. However, hierarchical regression showed the quantum of the moderation effect.

## DISCUSSION

The results of analysis showed that performance contracting had a moderating influence on the relationship between strategy implementation and performance. Further, performance contracting had a negative moderating effect on the relationship between strategy implementation and organizational performance. Notably, performance contracting indicators of negotiation as well as monitoring and evaluation had negative effect on the relationship between strategy implementation and performance of Kenya state corporations. These findings were in contrast of existing evidence in literature on the role of performance contracting. For instance, Domberger (1998) posits that performance contracting is part of new public sector reforms aimed at improving efficiency and effectiveness, while reducing on costs. Others (Balogun, 2003; Leting & Letangule, 2012) have argued that performance contracting should enhance organizational performance. However, these findings were similar to those of Kobia and Mohammed (2003) who established that performance contracts were not yielding in the Kenyan public sector organizations to desired performance due to unclear targets and insufficient resources among other reasons.

Perhaps the reasons to the negative moderating influence of performance contracting as revealed by this study lies with the responses from the open ended questions posed to the respondents. Some respondents in this study indicated that the process of performance contracting had over time taken its own trajectory from the strategic plans. They indicated that while targets should be drawn from the strategic activities and objectives anchored in the strategic plans, the negotiation process which is conducted outside the organization by parent ministry and other government agencies sets incremental targets from previous performance contracts. Meaning that in some cases, targets set in the performance contracts were outside those within the strategic plans. Further, they indicated that government contracted negotiators and evaluators did not in some cases understand the contexts within which individual state corporations operated making the entire negotiation and evaluation exercise challenging. It is most likely, from analysis of comments made by the research

respondents, that there exist a disconnect between performance contracting and strategy implementation in Kenyan state corporations. Performance contracting ought not to exist outside strategy implementation. Therefore, the linkage between performance contracting and strategy implementation cannot be ignored.

## Implications and Limitations

Scholars and practitioners have searched for ways of enhancing performance of public corporation. This study poses several implications. The study makes a unique contribution to policy formulation and managerial practice in Kenyan state corporations. Formulators of policy in Kenyan State Corporation's regarding strategic process and strategic reforms can benefit from the findings of this study. The top managers of the state corporation could also benefit from the findings of this study with regard to how strategy implementation, performance contracting influence organizational performance. One such implication would be the need to relook at the apparent disconnect between performance contracting and strategy implementation. This can be done by reviewing the entire process of performance contracting. The study has also made its unique contribution to frontiers of knowledge arising from Result Based Management Theory, and Stakeholder Theory by providing the much need empirical evidence that supports the theories.

All the study's data were obtained through self-reporting measures. The reliance on primary data has the potential associated with common method variance and other sources of systematic measurement error (Islam, 1993). It is not, however likely that a consistency motive was present for a number of measures were taken in the questionnaire design. For example, participants did not have an implicit theoretical knowledge of what the research was on. Additionally, the study's variables were intermingled in the questionnaire and a number of research questions were reverse coded to minimize consistency motive in responses as suggested by Podsakoff et al. (2003).

## CONCLUSIONS

This study is one of the theoretically grounded empirical investigations of the effects of performance contracting on the relationship between strategy implementation and performance of Kenyan state corporations. The study showed that performance contracting significantly moderated the relationship between strategy implementation and performance. Further, performance contracting had a negative moderating effect on the relationship between strategy implementation and organizational performance. It was evident from findings that the moderating effect of performance contracting process, while conventionally thought to be positive, the research showed otherwise. It is most likely, from analysis of comments made by the research



respondents, that there exist a disconnect between performance contracting and strategy implementation in Kenyan state corporations. Performance contracting ought not to exist outside strategy implementation. Therefore, the linkage between performance contracting and strategy implementation cannot be ignored.

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