EFFECT OF PERFORMANCE CONTRACTING ON PERFORMANCE OF THE STATE OWNED SUGAR COMPANIES IN WESTERN KENYA

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A Thesis submitted in partial requirement of the Award of the Degree of Master of Business Administration, Masinde Muliro University of Science and Technology

OCTOBER, 2020

DECLARATION

This research thesis proposal is my original work prepared with no other than the indicated sources and support and has not been presented elsewhere for a degree or any other award.

Signature………………………….. Date……………………

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CERTIFICATION

The undersigned certify that they have read and hereby recommend for acceptance of Masinde Muliro University of Science and Technology a research thesis entitled **“Effect of Performance contracting on Performance of State Owned Sugar Companies in Western Kenya”**

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DEDICATION

This thesis is dedicated to my family, my beloved wife, Lynnet Mutongi and children Lewis Mwalim and Carren Mwalim.

ACKNOWLEDGEMENT

I thank the Almighty God for His guidance and providence. I wish to appreciate the tireless effort by my supervisors Dr. Robert Egessa and Dr. Kwendo in guiding me through the research thesis, without which this thesis would have not been a reality. Special thanks go also to my colleagues and family for the moral and emotional support offered to me to the completion of this thesis.

ABSTRACT

Poor performance in the Kenya public sector consistently hindered the realization of sustainable economic growth and development since the country attained her independence in 1963. Among the noted factors that contributed to poor performance included: excessive regulations and control, frequent political interference, poor management, outright mismanagement of resources and poor guiding vision, unclear focus as to what is expected from employees and poor or no methods of measuring performance has been the greatest challenge. The Government elected in 2003 decided to manage public service through performance contracting system to address the situation. The main objective of this study was to determine the effect of PC on performance of state owned sugar companies in Western Kenya. Specifically, the objectives ought to establish the effect of setting of performance objectives on organizational performance in the state owned sugar companies, to establish the effect of performance implementation on organizational performance in the state owned sugar companies and to establish the effect of performance contract review on organizational performance in the state owned sugar companies. The study adopted a cross-sectional descriptive research design in which qualitative and quantitative data were collected. The target population was 999 managers and supervisors of the state owned sugar companies in Western Kenya. A sample of 286 was identified for the study through stratified sampling from the managers who sign performance contracts. Questionnaires were utilized to collect primary data from respondents. Secondary data was gathered from firm's strategic plans and websites. Frequencies, percentages, mean scores were used to analyze the data with the help of SPSS, correlation was used to establish the relationship between variables and multiple regressions was used for prediction. A pilot study was done using Chemelil sugar company .A reliability coefficient of ($\acute{\alpha}=0.833$) was obtained and accepted since it was above ($\acute{\alpha}>0.7$) an acceptable value. Validity of research instruments was tested using content validity. Pearson's correlation analysis revealed that there was positive significant correlation between Performance contract objectives and targets and organization performance ($r=0.445, p< 0.000$).Similarly there was positive significant correlation between Performance contract implementation and organization performance ($r=0.623, p<0.000$) and lastly a positive significant correlation between Performance contract review and organization performance ($r=0.535, p<0.000$). Summary of the model indicated there was a very positive relationship ($R=0.64$) between the dependent variable and the independent variables. Regression Coefficients of the findings showed that a unit increase in the performance contract objective and target would lead to a (0.16) unit improvement in the organizational performance unit increase in the Performance contract implementation would lead to a (0.44) unit improvement in the organization performance, unit increase in the Performance contract review would lead to a (0.21) unit improvement in the organizational performance. It was concluded that setting of the performance objectives, performance implementation and performance review had positive and significant effect on the performance of state owned sugar companies. The study recommends that the signing of performance contracts should be made mandatory for every employee in the public sugar firms. There is need for policy framework and regulatory mechanisms to be put in place to reward or punish performance based on commitment of employees, resource allocation, solid performance measures and outcomes.

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LIST OF ABBREVIATIONS AND ACRONYMS

EAC	East African Community
EP	Employee Performance
ERS	Economic Recovery Strategy
FTE	Factory Time Efficiency
GOK	Government of Kenya
HRM	Human Resource Manager
KIM	Kenya Institute of Management
KNBS	Kenya National Bureau of Statistics
KSB	Kenya Sugar Board
MD	Managing Director
MMUST	Masinde Muliro University of Science and Technology
NSC	Nzoia Sugar Company Ltd
OECD	Organization for Economic Cooperation and Development
PC	Performance Contracts
PSE	Public Sector Enterprise
PPP	Public Private Partnership
SADC	South African Development Community
SOE	State Owned Enterprise
UNCTAD	United Nation Conference Trade and Development

OPERATIONAL DEFINITIONS

Performance Contract: management tool for measuring the targets of performance between an employer who could be the government and the managers of state corporations as the management of the agency.

Performance contract objectives: performance-contracting evaluation based on contract objectives was introduced as a strategy in enhancing the productivity of federal departments and state owned enterprises

Performance contract review: The performance contract review specifies the distribution of rights and responsibilities among different participants in the corporation such as; boards, managers, shareholders and other stakeholders and spells out the rules and procedures and also decision making assistance on corporate affairs

Performance contract implementation: It constituted part of Public Service Agreement System and it set out key performance targets which government agencies were to report on

Economic Recovery Strategy: Reforms instituted by the government of Kenya in 2003 as a Strategy for Wealth and Employment Creation

State Owned Enterprise: State-owned enterprises (SOEs) or corporations are business enterprises where the Government or state has significant control through full or majority ownership, commonly referred to, as State Corporations.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Performance contracting is considered as a management tool for measuring the targets of performance between an employer who could be the government and the managers of state corporations as the management of the agency. Similarly Simiyu (2012) establish performance contracting as a performance agreement, which is freely negotiated between government acting as the owner of the public agency and the management of the agency. The performance contract was perceived to have originated from performance management. Armstrong (2006) defines it as the systematic process of improving organization performance of individuals and teams. Performance contract is also a branch of Management Science referred to as Management Control System. 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 (OECD, 2005).

Globally, there has been a paradigm shift in performance management in the public enterprises as argued by Shaver (2006) and the United Nations (2007). That shift has been attributed to different practices of performance management by public sector, explosion of knowledge and human right activities. Ndungu (2009) observed that governments are faced with the challenges of improving service delivery while using fewer resources to deliver effective and efficient services demanded by citizens. Internationally, implementation of performance contracting in the state owned sugar firms has been varied in both design and structure. In France the concept of performance contract in the state owned sugar firms was first introduced in the late 1960s following the publication of the famous Nora report on the reform of state-owned enterprises (Bouckaert, Verhoest, and De Corte, 2017). This according to (Santarelli & Tran 2013) contributed majorly to the improvement in the performance of state organizations from the agriculture subsector to the manufacturing. In the United States of America, the reason that influenced the introduction of performance based accountability in the education system, two decades ago, was to improve the public sector performance initiative in accordance to Government Performance Results Act of 1993 in terms of quality and reliability Elmore (2007). Similarly, in Canada the government's approach to performance contracting in state owned sugar companies was premised on 1990's expenditure management systems designed on the basis of cost containment during a period of budget deficits (Kernaghan & Siegel, 2015). The introduction of this management approach brought tremendous result in the performance of most of the state sugar organizations in Canada (Thompson, Stickland & Gamble, 2007).

Generally in African countries' the experience of poor performance among public sugar companies necessitated the adoption of performance contracting paradigm (Ojo, 2009). This was part of the comprehensive public sector reforms strategy, as steps towards addressing the challenges like shortages of manpower, competencies and shortage of financial and material logistics posed by weak accountability framework result that had hindered effective service delivery in the 1990s Lienert (2003). For instance the Egyptian experience with Public Private Partnership (PPP) since 2008, has demonstrated the government's commitment to improving public services and in particular state sugar organization through performance contracts. The performance contracts in Egypt are signed between the public sector and the private sector for the purpose of having the private sector deliver services traditionally provided by the public sector (Hannoura, 2014). The political transition in South Africa necessitated comprehensive restructuring of the state bureaucracy in state sugar companies, a process that attracted considerable policy attention in the mid to late 1990s. This led to the South African policy makers drawing inspiration from the wealth of international experience in public sector reforms. Key to the reforms was the management development and practice, which included performance contracting in state sugar companies in South Africa. (Naidoo, 2015). In East Africa, the East African Community Performance Contract (2008/2009), stipulated member states' expectations and commitment for common achievement. Largely, this was to be achieved through implementation of Strategic Plan (2007-2012), which would entail development of work plans with comprehensive performance targets outlined in the performance contract (Korir, 2006).

In East Africa, the East African Community Performance Contract policy document (2008/2009) stipulated membership states expectations and commitment for common achievement. Largely, this was to be achieved through implementation of strategic plan (2007). Rwanda's indigenous knowledge system known as *Imihigo* (performance contracts), is one of those innovative and home-grown approaches that has complemented service delivery initiatives. Consequently, the hybrid approach has contributed significantly to improvements in the service delivery and productivity of employees' particularly in sugar factories (Byamukama, 2012). The improvement of corporate governance and management practices through implementation of performance contract is widely recognized as one of the essential elements in strengthening the foundation for the long-term economic performance of countries and corporations (Kyereboah, 2007). Shiwa (2014) carried out a study that concentrated on effectiveness of performance contract on performance management and contractors performance in Oil and Gas companies in Tanzania. The study showed that performance contracting was an effective tool in performance monitoring of contractors.

In Kenya, the public sector continues to explore innovative ways of providing quality services to the citizens. The government has adopted performance contracting with an overall objective of improving service delivery (Muthaura, 2007). This strategy is combined with continuous tooling and retooling of public officers in order to change their mind-sets from being process and activity driven to being more result focused and citizen centric. Obongo (2009) outlines performance contracting in Kenya, as a by-product of second generation of reforms by the government. It is premised on the assumption that institutionalization of a robust performance management system that focuses on the customer and cost containment, can lead to improvements in service delivery (GOK, 2005). The cabinet memorandum of 1990 No. (90) 35 laid a foundation for performance contracting in Kenya. It was conceived as an avenue of changing the way things were being done, reinforcing a new behavioral pattern and adopting a positive work ethics in the public service (Kobia and Mohamed, 2006). At the formative stages, performance contracting in state owned sugar companies was introduced in Kenya in 2004, as part of the Civil Service Reforms instituted under the Economic Recovery Strategy for Wealth and Employment Creation (ERS) 2003-2007(Hope, 2013).

1.2 Statement of the Research Problem

The objectives of introducing the performance contracts in the state sugar firms 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). Kenya decided to re-introduce performance contracting in 2019.

The expected outcome of PC in Kenya was: improve performance; decline in reliance on exchequer funding; increased transparency in operations and resource utilization; increased accountability for results; linking reward on measurable performance; reduced confusion resulting from multiplicity of objectives; clear apportionment of responsibility for action; improvement in the correlation between planning and implementation; and creating a fair and accurate impression on the performance (Kobia and Mohamed, 2006) This was aimed at improving the sugar industry performance. Odeka, Minja, and Kiruthi, (2017) studied influence of performance management practices on performance contracting in Kenya.. The study concluded that strategic planning and financial resources allocation greatly influenced performance outcomes in the ministry.

The state also identified manufacturing as a paramount pillar in the Big 4agenda geared towards transforming Kenya into an actively industrious nation as stipulated in Kenya's vision 2030 and anchored in the Agricultural Sector Development Strategy(2009- 2020). However, despite the sugar companies crafting comprehensive strategic plans and elaborate performance contracts, Kobia and Mohamed (2006) points out in their study that over 174 (62.1 %) respondents indicated that they do not have adequate resources needed to meet their targets. They also found out that some of the problems experienced during the implementation of the performance contract included lack of adequate resources, resources not being released on time; some performance targets were unrealistic. In contrast to the studies outcomes, some Western Kenya state owned sugar firms implementing performance contracting are still experiencing persistent poor management and dismal performance despite bailout and injection of funds by the national treasury and sugar development levy established by sugar Act of 2001 respectively.

A number of studies on performance contracting in Kenya have been carried out but focused on implementation of various performance contracting strategies in a bid improve performance and increase productivity. Choke (2006) study concentrated on the link between strategic planning and performance contracting in state corporations. Obongo (2009) studied Implementation of performance in Kenya while Njiru (2007) studied the management of strategic change in the implementation of performance contracts among State corporations. A study conducted by Kiboi (2006) on Management perception of performance contracting in state corporations deduced that state corporations of Kenya developed a reasonable sense of direction after implementing performance contracting, an indictment that business cannot perform effectively without performance contracting as it acts as a tool of improving performance in the organization. Studies conducted by Nyongesa, Sawe and Nganga (2012) on challenges facing the implementation of performance contracts in state corporations in Kenya selected only one state owned sugar company (Chemelil Sugar Company) for the study.This could not be generalized to other state owned sugar companies. Therefore, this study sought to bridge this gap by investigating the effect of performance contract implementation on organization performance of state owned sugar companies in Western Kenya.

Studies have also been carried out on effect of performance contracting on performance of other government institutions such as health institutions in Nairobi and Kiambu counties, Maina (2012) supply chain performance of public universities in Kenya, Owuor (2019); performance of state corporation in energy sector in Kenya, Birech (2011) and on performance of state corporations in Kenya, Kago (2014). However, no study has been done on the effect of performance contracting on the performance of state owned sugar companies in western Kenya. Hence a gap exists on how performance contracting has impacted on sugar manufacturing sector. This study therefore sought to establish the effect of performance contract on the performance of state owned sugar companies in western Kenya.

1.3 Purpose of the study

The main purpose of this study was to investigate the effect of performance contracting on the performance of state- owned sugar-manufacturing firms in Western Kenya.

1.4. Objectives of the Study

The main objective of the proposed study was to examine the effect of performance contracting on the performance of state owned sugar companies in west Kenya. Specifically the study was sought:

(i) To establish the effect of setting of performance contract objectives on organizational performance in the state -owned sugar companies in Western Kenya.

(ii) To find out the effect of performance contract implementation on organizational performance in the state- owned sugar companies in Western Kenya.

(iii) To investigate the effect of performance contract review on organizational performance in the state -owned sugar companies in Western Kenya.

1.5 Hypotheses

The study was guided by the following research hypothesis;

(i) ***Ho_1***: There is no statistically significant relationship between performance contract objectives and organizational performance of state owned sugar companies in Western Kenya.

(ii) ***Ho_2***: There is no statistically significant relationship between Performance contract implementation and organizational performance of state owned sugar companies in Western Kenya.

(iii) ***Ho_3***: There is no statistically significant relationship between Performance contract review and the organizational performance of state owned sugar companies in Western Kenya.

1.6 Significance of the Study

This study will be important to the Government, being a major shareholder in state corporations as it will give an insight to the effect of performance contracting on efficiency, customers' satisfaction and performance of state corporations that may assist in developing policies for the firms. The study result findings will enable the government to know whether the reform initiatives have positively impacted on productivity and have been accepted or embraced by all the employees. The study will be instrumental in providing information on the state corporations' management on the effects of performance contracts within their jurisdictions.

To the Management of sugar firms, the study findings will be of importance since the report can assist in establishing performance in terms of achievements or failures against the set targets. Failures or weakness of the contracting that will be noted in the study can further be developed as strategies of management improvement. This will provide an independent evaluation tool that can be used to gauge the successful use of performance contracts in the organization. The organization can also use the results of the study to assist in managerial decision-making and also be able to formulate better policies and procedures that will ensure success of the performance contract

The results of the study will assist the employees to know the effectiveness and success of the performance contracts in the organization and therefore ensure they meet performance targets so that they can reap the benefits accrued from the organizations continued growth and profitability. This study results would be a basis for literature references and future research for those seeking to carry out further research in the relationship between performance contracting and performance improvement and service delivery in public institutions as a basis of policy decisions. Scholars will find it important as the study will be resourceful and make them knowledgeable in this area, which within the Kenyan context is still fairly new and requiring further research for exhaustive understanding of the effectiveness of the performance-contracting program.

1.7 Scope of the study

The study was conducted at all the four state owned Sugar Companies in Western Kenya, which included, Nzoia, Chemilil, Muhoroni and Sony Sugar companies Appendix IV. It is worth noting that the selection of the study area as Western Kenya was influenced by the fact that Western Kenya is predominantly a host of only sugar companies located within the same agro ecological zone, with an exception of Kwale international Sugar Company located in the coastal region. The four state owned sugar companies were purposefully chosen because they are the only sugar firms that sign performance contracts in Western

Kenya. These factors make Western Kenya suitable area for study. The study specifically sought to establish the effect of setting performance contract objectives, performance contract implementation and performance contract review on organization performance of state owned sugar companies in Western Kenya.

1.8. Limitations of the study

The findings of the study were interpreted and understood within the confines of inherent limitations. First, though achievement of 100% response rate in social research is hardly practical, this study attained a response rate of 72.4%, which is according to Muganda and Muganda (2003) responce rate of 50% is statistically acceptable level to conduct an empirical research. Secondly, Sugar sector State Corporations were selectively chosen because Performance Contract is evidenced by state corporations than private companies in the sugar sector. Therefore, the experience of other private sugar manufacturing companies lacked in the findings that justifies generalization. Therefore, the selection of companies for the study was a major limitation of the study. However, this study overcame these limitations by providing recommendations that would improve the performance of sugar companies irrespective of the nature of ownership.

Additionally, some respondents may be unwilling to provide information for fear that the information maybe sensitive. Besides, some respondents may consider certain information as confidential and maybe unwilling to share the information. The researcher ensured that proper communication was made by Human resource Department declaring that the study was for academic purpose only and not for other investigations. Respondents were assured that their personal information was kept confidential.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discusses literature review on performance contracting and organizational performance**.** The chapter discusses theoretical framework, Empirical review and conceptual framework as well as the research gaps.

2.2 The Theoretical Review

This study will be anchored on **V**.H. Vroom and expectancy theory and new public management (NPM) theory as further explained in the following sub-sections:

2.2.1 V.H. Vroom and expectancy theory

V.H Vroom advanced this theory in 1999.The theory seeks to explain how employees' motivation through performance contracting influences organizational performance, particularly sugar producing firms (Bielen &Demoulin, 2014). The basis of this theory was that motivated behavior is a product of two key variables, the valence of an outcome for the individual and the expectancy that given acts are tracked by a foreseeable consequence (Vroom, 1999). The theory focuses on individual behavior in the work place. Vroom contended that much of the observed behavior would be motivated. In his opinion, it was the result of preferences among possible outcomes and expectations concerning the consequences of actions. Essential elements of his ideas have been referred to as "expectancy theory". It has always been perceived that employees' behavior affect service delivery as has been contended in the theory (Simiyu, 2012). This was also asserted by Kobia & Mohammed (2006) who postulated that setting of performance contract that motivates the employees' in an organization enhances their ability to predict the outcome and can make them perform better because they will be motivated to work harder in order to achieve the anticipated goals. The organizational management of Sugar companies in Kenya has an open and adaptive relationship with their employees' (Kipyego, 2011). Therefore, using the concept of Expectancy theory, the proposed study will bring out the connection between outcome for the individual and the expectancy that given acts are tracked by a foreseeable consequence. Similarly the study employed the perspectives of expectancy theory to show the effect of employees' motivation and service delivery on the organizational performance of sugar companies in the long run .The study was majorly be guided this expectancy theory.

2.2.2 New Public Management (NPM) Theory

Christopher Hood first coined the NPM label in 1991 (Vabo, 2009). New Public Management Theory is a modern theory with a series of themes relating to reforming the organizations and procedures of public sector with key objective of making it competitive, efficient and effective in resource utilization and service delivery (Cheche & Muathe 2014). Hood (as cited in Vabo, 2009) identified seven important components in reforming the organizational performance of state owned sugar firms. This components are professional management' in the public sector, explicit standards and measures of performance, output control, disaggregation of units in the public sector, competition in public sector, adopting private sector styles of management practice and lastly discipline and parsimony in resource use (Zeithaml & Bitner, 2013). Performance contracting is one of the reform initiatives in the Kenyan public service geared towards enhancing efficiency and accountability for results (Karia & Ahmad, 2010). It provides a disciplined framework in which performance is measured through agreed performance dimensions (Hope, 2013). Using the concept of New

Public Management (NPM) theory, the study brought out the link between performance contract implementation and the organizational performance of the state owned sugar companies in Western Kenya.

2.3 Empirical review.

There are a number of prior empirical researches, which analyzed the performance of sate owned sugar companies in different countries and used a wide variety of estimation methodologies utilizing different potential determinants variables. This proposed study focused on previous studies in which performance contract objectives, performance contract implementation and performance contract review were considered as explanatory variables

2.3.1 Performance contract objectives and organizational performance.

In a study conducted by Lings from 1994-2004 on the effects of setting performance contract objectives on the organizational performance of sugar firms in Brazil using both descriptive and analytical research design, the study found out that setting of performance contract objectives moderately influenced the performance of sugar firms in Brazil in a positive way. Similarly, in a study conducted by Slater from 1999-2009 on the effects of setting performance contracts objectives on performance of sugar firms in Canada, the findings revealed that performance contracting objectives if well executed may increase real speed in decision making and build self-confidence in employees and thus increase their productivity and profitability of sugar firms in the long run. However, the studies conducted by Magugui, Yano, Chepkemei and Chebet (2015) on Effect of Performance Contracting on service delivery in the Public Sector; Focus on Supply chain Department of Moi Teaching and Referral Hospital, Eldoret Kenya, found out that majority of employees and suppliers understand what PC is all about but are not engaged in setting its objectives. The contrast of the two studies formed the basis of this proposed study that seeks to establish the effect of setting performance objectives on performance of state owned sugar firms.

Chisanga, et. al, (2014) conducted a Study on effects of setting performance contract objectives in enhancing competition in public sugar companies in Kenya, South Africa, Tanzania and Zambia. Using VAR approach developed by (Toda & Yamamoto, 1995) from 1990-2014 the findings revealed that the competitive outcomes in the public sugar factories are more likely to be affected by employees' performance contract objectives as an internal factor. The findings however does not agree with the findings of Mwanaongoro and Imbambi (2014) who conducted a study on the effects of setting performance contract objectives on performance of sugar companies in Kenya from 2000-2014. Using Likert–scale weighted average in the data analysis, findings showed that setting of performance contract objectives in Sugar companies in Kenya did not have a significant effect in the profitability of the sugar firms. From the above two studies, their findings were contrasting hence the need to investigate the effects of performance contracting on performance of sugar companies in western region specifically as opposed to the whole country. Similarly this study employed descriptive and analytical research design an opposed to the Likert–scale weighted average.

Kobia and Mohammed in 2006 conducted a study on the effects of setting performance contract objectives on organizational performance of public sugar companies in Kenya and found out that performance contract objectives moderately and positively affected the performance of sugar companies in Kenya. The study further noted that setting of performance contract objectives in the sugar companies enables coordination of the individual, department, institution and ministries to derive their plans from the country's Vision 2030, which attempts to align human resource function with the strategic goal of the organization .The study employed a descriptive research design using data obtained from 280 senior public servants in sugar industries using questionnaires. However, despite the findings, data were not drawn from various ministries across the country implying the study was spread so thin to enable sound conclusion. This study obtained data of the selected sugar companies from various department and ministries including Kenya Sugar Board, KNBS and World Bank Website.

The study employed both descriptive and analytical research design, which gives sound and conclusive empirical results as opposed to using descriptive design alone. Kosgei and Gitau in 2015 conducted a study on the effect setting performance contract objectives in management on organizational performance of Kenya Airways and found out that, setting of performance contract objectives in management was a prerequisite for staying competitive in the global race and enhancing profitably of the organization. The study also found out that there was a great opportunity for organizations to improve its performances through proper use of performance contract objectives and therefore recommended that organizations should show more commitment in contract objectives by having systems to monitor, appraise and evaluate performance at a strategic level. However despite the findings, the study focused on the effect of setting performance contract objectives transport sector hence this knowledge gap forms the basis of this study, which intended to investigate the impact of performance contract review on performance of state owned sugar firms in Western Kenya.

2.3.2 Performance contract implementation and organizational performance.

Pavie and Filho in 2008 investigated the relation between corporate social responsibility in reviewing the performance contract of organizations and organizational performance of sugar companies in U.S.A.Using the meta-analytic method developed by Hunter and Schmidt (1990) the Study concluded that there was a positive correlation between performance contract review and organizational performance of sugar companies in U.S.A. The study was done in developed country hence the need to done in a developing country which this study intended to find out the impact of performance contract review on state owned sugar firms in Kenya.

In study on sugar firm diversification and performance contract implementation in Vietnam conducted in 2013 by Santarelli and Tran (2013) using Panel firm-level data from 2001 to 2006, the study found out that first of all, factors stimulating firms to diversify do not necessarily encourage them to extend their diversification strategy; Secondly, firms which are endowed with highly skilled human capital are likely to successfully exploit diversification as an engine of growth; Lastly, while industry performance does not influence profitability of firms, it impacts their diversification decision and degree (Santarelli & Tran, 2013). However from the study it was still not clear how performance contract implementation determine firms' decision to diversify and to what degree. This formed the basis of this study, which established how performance contract implementation affect performance of sugar companies in western Kenya.

Gatignon & Xuereb in 2007 in Mexico conducted a study to investigate the effect of strategic orientations (customer, competitive, and technological orientations) on organizational performance of sugar firms in Mexico. The study using questionnaires to collect data from 239 marketing executives, found out that strategic orientation positively affects the organizational performance of sugar firms in Mexico. It was however difficult for the study to evaluate the effect of performance contract implementation on the performance of sugar companies in Mexico. This study analyzed how performance contract implementation affects the performance of sugar companies in Kenya specifically in Western Kenya.

In a study conducted by Ojo in 2009 in Nigeria to investigate the impact of performance contract implementation in one selected sugar firm, It was discovered that implementation of the firm's performance contract positively affected the sugar firm in terms of profits. The study employed survey design and simple random sampling technique in selecting the case study companies as well as the respondents. Primary data were collected through questionnaire and analyzed through descriptive statistics. Correlation and coefficient of determination were used to test the hypotheses. The study however suffers from being associated with single country and single firm. This current study used four sugar companies in western Kenya in order to show the effect of performance contract on state owned sugar industries in Kenya using western Kenya sugar industries as case study.

In a study conducted by Wanyande in 2001 to investigate the effect of Management politics in Kenya's Sugar Industry, the study found out that the problems in the sugar industry are mainly due to government policies and interference and not in performance contract implementation. Data was obtained from both secondary and primary sources. The study concluded that efficient management of the sugar factories through strategies like performance contract implementation was the key to the success of the sugar industry in

Kenya (Wanyande, 2001). The study however, was majorly focused on management politics and gave little attention on performance contracting as a strategy in management improvement. This study filled this gap by focusing majorly on performance contracting and specifically how performance contract implementation affects performance of state owned sugar companies in western Kenya.

In 2014 Manyasi and Masinde investigated the impact of corporate social responsibility towards employees as one way of performance contract implementation on performance of sugar manufacturing firms in Kenya and found a positive statistically significant linear correlation between practicing employee oriented activities and business performance of sugar manufacturing firms in Kenya. The study further recommended that managers, investors of sugar manufacturing firms as well as the interested parties in sugar firms should proactively participate in employee oriented activities since it has a positive significance towards the performance of sugar firms (Manyasi & Masinde, 2014). However, the study was limited to the impact of corporate social responsibility as an aspect of performance contract implementation in measuring organizational performance. This study looked at performance contract implementation in many aspects like customer satisfaction and service delivery in assessing the effect of performance contract implementation on organizational performance of state owned sugar companies in Western Kenya.

The study carried out by Gatha, Ngugi, Waithaka and Kamingi (2012), found that commitment of top management was mandatory to successfully improve the overall probability that the performance contract strategy is implemented as intended. The study observed that engagement of employees to drive implementation of performance contract and commitment of top management to provide strategic direction was associated with improvement of organization performance. This view point was reinforced by the study conducted by Choke (2006) on perceived link between strategic planning and performance contracting in state corporations that observed that top management plays an important and leading role in ensuring successful implementation of performance contract. However, (Dye, 1992) observed that effectiveness measures, which examines whether the outcomes achieved were worthwhile and contained any long- term benefit, may be difficult to measure objectively. This study intended to find out the impact of performance contract implementation on performance of state owned sugar firms in Kenya.

2.3.3 Performance contract review and organizational performance.

Gee and Ding in 2005 using descriptive statistics and correlation coefficient conducted a study in China to investigate the effects of performance contract review as competitive market strategy on organizational performance of sugar firms in China and found out that performance contract review had a strong positive association with the performance of sugar companies in China. Although this study provided interesting insights into the understanding of the market orientation-performance relationship in China, it relied mainly on the single key informant approach for data collection, which may cause a halo effect or common method variance. This study employed both questionnaires and interviews to collect primary data which will later be analyzed using both descriptive and inferential statistical design that gives reliable data interpretation as opposed to descriptive research design only.

In a study carried out on Analysis of factors that influence implementation of performance contracts in state corporations; A case of Kenya Civil Aviation Authority by Gatha, Ngugi, Waithaka and Kamingi (2012), the study found out that there was positive response as evident by most respondents strongest agreement that performance measurement were used to evaluate, control, and improve operations process in order to ensure the organization achieves its goal and objectives and that in their departments the employees were encouraged to uphold high performance standards. According to a study carried out by Nguthuri, Maringa, and Gongera (2013) on the Evaluation of the Performance Contracting on Organization performance; a case of Kenyatta University, Kenya, the study deduced that monitoring and evaluation greatly improved institutional effectiveness. A lot of approval from respondents justified this argument.

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Pavie and Filho in 2008 investigated the relation between corporate social responsibility in reviewing the performance contract of organizations and organizational performance of sugar companies in U.S.A. Using the meta-analytic method developed by Hunter and Schmidt (1990) the Study concluded that there was a positive correlation between performance contract review and organizational performance of sugar companies in U.S.A. The study was done in developed country hence the need to done in a developing country which study intended to find out the impact of performance contract review on state owned sugar firms in Kenya.

Adeoye and Elegunde (2012) investigated the impact of performance contract review on the food industry performance in Nigeria. Instruments of data collection were questionnaires with a sample size of 150 companies. Response rate was 84% while data was analysis was done by multiple regression rates. The findings of the study showed reviewing performance contracts had positive impact on organizational performance of food and beverages industries in Nigeria (Adeoye & Elegunde, 2012). Their findings could however not be generalized to other industries other than food industry hence the results may not be consistent across multiple country contexts. Similarly their findings generalized the impact of performance contract review on organizational performance of food industries in Nigeria, which may not clearly show how performance contract affects performance of sugar firms. This forms the basis of this study, which intended to investigate the impact of performance contract review on organizational performance of Sugar factories in Western Kenya.

In exploring the impact the performance review strategy on sugar manufacturing firms in Kenya, Masinde and Makori in a study in 2014 found out that there was a positive relationship between performance contract review and organizational performance of sugar firms in Kenya. The findings showed that sugar firms with high profitability participated in performance contracting review as opposed to firms with low profitability. The researcher used a sample of 245 employees from sugar manufacturing firms. Suitable descriptive and inferential statistical tools like mean standard deviation, ANOVA, Pearson correlation done at 95% confidence level were used in the study. The study recommended that shareholders and investors of sugar manufacturing firms as well as the interested parties in sugar firms should stress on the need for sugar firms to review their performance contracting as a primary objective in the course of business (Masinde &Makori, 2014). The study however focused on all sugar firms in Kenya, which may not consider the effect of performance contract review on state owned sugar companies in Western Kenya. According to (Jimenez - Jimenez & Sanz - Valle, 2011), financial performance, organizational effectiveness and operational performance are characteristics of organizational performance. This study sought to focus on the effect of performance contracting on state owned sugar, which have similar characteristics.

Atsango in 2012 using Mumias Sugar Company as a case study in Kenya investigated the impact of performance contract review of sugar firm performance and found out that Performance contract review had positive relationship with the performance of Mumias sugar firm but other management crisis affected the performance of the firm. Data was collected using questionnaires and analyzed using descriptive and inferential statistics. The analyzed data was then presented using bar graphs, pie charts and tables. The study however ought to have incorporated operational level employees and customers. This study incorporated operational level employees and customers.

2.5 Summary and Research gaps

Past studies were also reviewed to analyze and evaluate work already done in the area. In the study "*Performance Contracts in Kenya: Instruments for Operationalizing Good Governance*" based on the results for year 2005-2006, Prajapati (2009), the study revealed that any effort to measure performance results yielded positive results because employees' efforts are focused to organization's objectives thus improving performance. However the study failed to relate performance contracting to performance effectiveness.

Government of Kenya (2010) through a Panel of Experts set up to review Performance Contracting since implementation in 2004 studied the PCs and shed light on areas such as: the framework and design of the performance contracting system applied since 2004; the performance contracting process; the performance contracting evaluation system and process; the critical learning points from the performance evaluation results reported over the past three financial years, and citizen participation, expectations and perceptions. The report was too broad and failed to address specific areas such as quantified effects of performance contracting on performance.

"Public Sector Reforms and Performance contracting" study by Ochieng (2010) observed that in the 1990s, Kenya's Public Service was among the countries, which had suffered "damaged image" both locally and internationally. The study revealed that performance contracting has instilled discipline to the public institutions by ensuring adherence to work-plans, strategic plans, sector plans and Vision 2030 has its foundation laid on performance contracting. The study noted that the paradigm enabled recognition of performers from non-performers thus leading to a competitive public service. Kobia & Mohammed (2006) in a study *"Kenya Experience with Performance Contracting"* reckon that performance contracting has revolutionized service delivery in the public service. The study noted that performance contracting ensures that employees are guided and facilitated by work-plans

and are made responsible for their results. The system enables measuring the extent to which the set targets has been achieved and enables coordination of the individual, department, institution and ministries to derive their plans from the country's envisioned development blue print Vision 2030. Muthaura (2007) argues that performance contracting forms a very strong base for employees' employment terms of service since they have to justify their stay in the payroll through performance and reckon that *"every employee has to justify why they should be retained in the payroll through performance"*. The study noted that performance contracting has demystified government and governance processes thus ensuring inclusion of grass roots level communities.

The above literature notwithstanding, it's clear that no detailed study has been carried out to specifically explain the effects of performance contracting on organization performance, concentrating on the organizational service delivery, customer satisfaction and corporate profitability which this study premised to be the effectiveness of performance.

Santarelli and Tran (2013) and (Ojo, 2009) studied challenges of performance contract implementation as a differentiation strategy, which was confined in one Sugar Company, and one strategy. Another study conducted by Owiye, Naibei, and Momanyi (2016) only focused on the effect of trade liberalization on performance of state owned sugars firms in Kenya. These studies created a gap for the entire state owned sugar industries in western Kenya to be investigated in addition to other strategies affecting the industry. (Gatignon & Xuereb, 2007), Manyasi and Masinde, (2014), (Wanyande, 2001) conducted a longitudinal study on performance contract implementation and organizational performance, leaving a gap for this study to investigate cross-sectional study on the effect of performance contracting on the performance on state owned sugar companies in western Kenya.

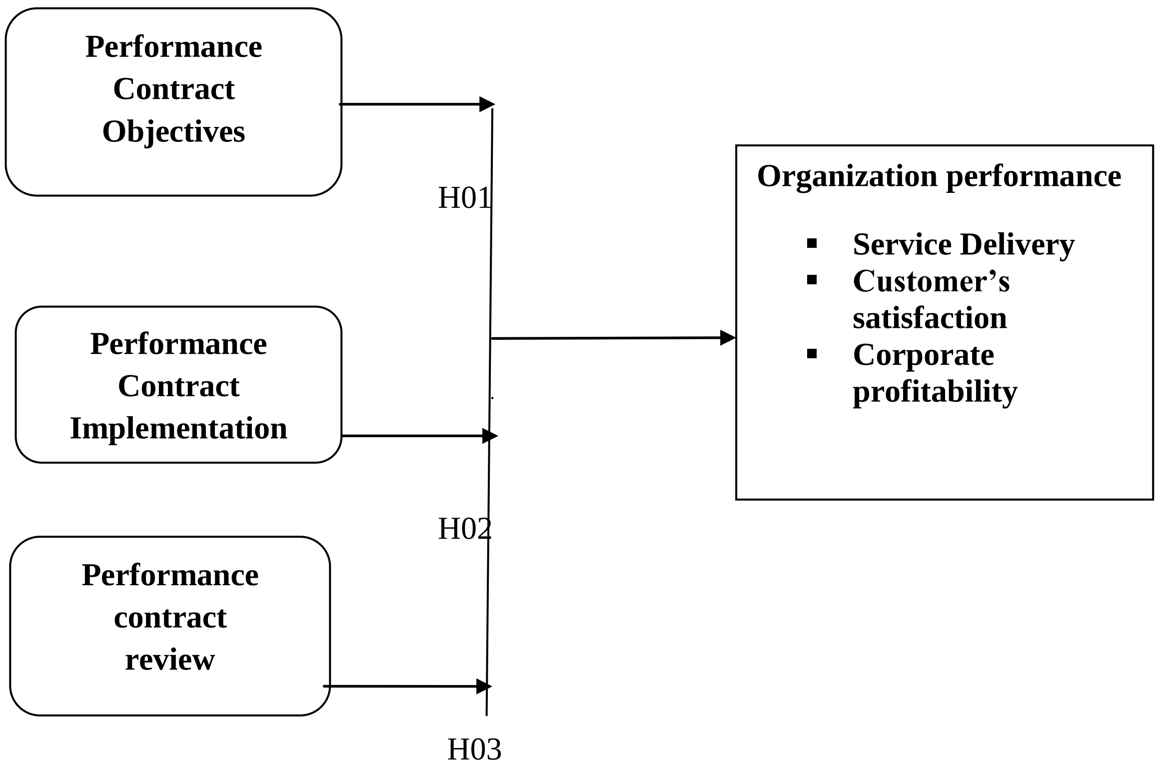
2.6 Conceptual Framework

This is an analytical tool with several variations and contexts. It is used to make conceptual distinctions and organize ideas. Strong conceptual frameworks capture something real and do this in a way that is easy to remember and apply. The conceptual model developed below portrays this expected relationship between the study variables. The factors characterized here are performance contract objectives, performance contract implementation and performance contract review as explanatory variables while organizational performance as dependent variable.

Independent variables: The conceptual framework below shows how the independent variables interact to influence the dependent variable. Independent variables either influence the dependent variable in a positive or negative way. Meaning that, the variance of a dependent variable is accounted for by the independent variables therefore, giving a causal relationship between the two variables. Performance contract objectives, performance contract implementation and performance contract review are independent variables influencing organizational performance of state owned sugar companies, which is a dependent variable.

Dependent variable: It is a variable of primary interest to the researcher. Through analysis of dependent variable, it is possible to find solutions to the problem. Organizational performance is the dependent variable and it is influenced by the independent variables. The dependent variables are measured in terms of service delivery, customers' satisfaction and profitability.

The Figure below shows a diagrammatic representation of the relationship between the dependent and independent variables.



Source; Self conceptualization (2020)

Figure 1. 1: Diagram of conceptual framework

H01 shows the effect of setting performance contract objectives on Organizational performance; H02 shows the effects of performance contract implementation while H03 shows the effect of performance contract review on organizational performance respectively.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research methodology used in this study under the following sub-topics; Research Design, the Population study, Data Collection Methods and the Validity and Reliability of the Research Measurers. Furthermore, it can be defined as the description of the procedures that would be followed in conducting a study (Mugenda and Mugenda, 2003).

3.2 Research Design

The study adopted a descriptive research design. A descriptive study refers to determining the frequency with which something occurs or the relationship between variables (Creswell, 2012). This approach was appropriate for this study, because the researcher collected detailed information through description and was useful for identifying variables and hypothetical constructs (McDaniel, Lamb & Hair, 2008). This method provided descriptions of the variables in order to answer the research questions in the study (Creswell, 2012). It was therefore be an efficient way to obtain information needed to describe the attitudes, opinions and views of the respondents on the effect of performance contracting on the performance of state owned sugar companies in western Kenya

3.3 Target Population

Population can be defined as a complete set of elements (persons or objects) that possess some common characteristic defined by the sampling criteria established by the researcher (Mugenda & Mugenda, 2003). Target population on the other hand is the specific population about which information is desired (Nachmias, 2008). This definition ensures that population of interest is homogeneous. Population studies are more representative because everyone has an equal chance to be included in the final sample that is drawn (Mugenda & Mugenda, 2003). The target population was limited to 999 managers and supervisors of all the four state owned sugar companies who sign performance contracts as shown in the table 3.1. Below.

Table 3. 1: Target Population

Sugar firm	No. Of Managers	%Age
Sony	106	10
Chemilil	302	30
Mohoroni	206	21
Nzoia	385	39
Total	**999**	**100**

Source; Human Resource (HR) Departments for state owned sugar companies (2017)

3.4 Sampling Design

According to Mugenda and Mugenda (2008) sampling design is that part of statistical practice which is concerned with the selecting of a subset of individual observations within a population with intention of yielding some knowledge about the population of concern, necessary for making predictions based on statistical inference. The component of sampling design, which includes the sampling frame, sampling techniques and sample size, are discussed below.

3.4.1 Sampling Frame

The sampling frame is the set of source materials from which the sample is drawn. It provides a means by which particular members of the target population are chosen (Johnson, Klassen & Mattsom, 2015). The sampling frame in essence is a complete list of all the cases in the population from which a sample is drawn (Kothari, 2004). Since a researcher rarely has direct access to the entire population of interest in social science research, a researcher must rely upon a sampling frame to represent all of the elements of the population of interest (Creswell, 2012) The sampling frame for this study focused on top managers and supervisors in state owned sugar companies in Western Kenya derived from the human resource department.

3.4.2 Sampling procedure and Sample size

Sampling technique is the procedure a researcher uses to gather people, places or things to study (Cooper & Schindler, 2008). The researcher used a stratified random sampling technique because the population was not homogenous and could be divided into small groups or strata for the sample to be fully representative of the population. As noted by Mugenda and Mugenda (2008) this sampling technique is able to provide a more accurate and representative sample from populations that are non-homogeneous. The technique also eliminates bias since every population element has the same chance of being selected

For quantitative data collection an appropriate sample size was computed to achieve the true proportion at 95% confidence level. To calculate the sample size of the population, the study used the Yamane’s formula (1967).

$n = \frac{N}{1+N(e)2}$: Where n is the sample size, N is the population size, and e is the level of precision. When this formula is applied to the population of 999, we get Equation,

$n = \frac{999}{1+999(0.05)2}$ = 286. The sample 286 was identified randomly from the employees who sign performance contracts from each of the four state owned sugar companies as shown in sample size table 3.2 below.

Table 3. 2: Sample size

Sugar firm	Managers	%Age	Sample size
Sony	106	10	29
Chemilil	302	30	86
Muhoroni	206	21	60
Nzoia	385	39	111
Total	**999**	**100**	**286**

Source; Human Resource (HR) Departments for state owned sugar companies (2017).

Mugenda and Mugenda (2008) explain a sample to be a small group that is obtained from an accessible population. It is further recommended that a sample of at least 10% of the total population was used as a representation for true and accurate data. The study sample size had 286 managers and was deemed representative as it conforms Mugenda and Mugenda (2008) argument.

3.4 Data Collection Method

Both primary and secondary data were used to generate information from respondents on views and opinions on information regarding the effect of performance contracting on organizational performance of all the four sugar companies. Primary data was obtained through questionnaires shown in (Appendix I). Secondary data was obtained by use of literature from the company records. Documents are valuable source for empirical data collection (Charlesworth2003a). The documents included annual reports from Kenya Sugar Board, World Bank website, Kenya National Bureau of Statistics (KNBS) annual work plans and current strategic plans.

The study used structured questionnaires as a data collection instrument as shown in appendix I. According to Cooper and Schindler (2011) primary data are sought for their proximity to truth and control over error thus primary data was used to obtain realistic and truthful information. The study used a structured questionnaire in an effort to conserve time and money as well as to facilitate easier analysis as they were in an immediate usable form. Mugenda & Mugenda (2003) consider a structured questionnaire to a series of questions that are standardized with a fixed scheme, which specifies the exact wording and order of the questions, for gathering information from respondents. The questionnaire contained organization information that included statements as per research questions. The researcher used the Likert 5- Point Scale; where 1 represented 'strongly disagree, 2 represented 'disagree', 3 represented 'agree', 4 represented 'strongly agree' and 5 'not applicable'. The layout used in this questionnaire was broken down in three sections: Section one**:** This was designed to obtain general information and organizational factors. Section two: This design consisted of questions on awareness and opinions of performance contract paradigm. Section three: This design dealt with the effect of performance contracting on organizational performance. The questionnaires were administered by "drop and pick" method. The respondents included 286 executive managers and supervisors. The respondents were drawn by way of random sampling technique.

3.5.1 Data Collection Procedure

Masinde Muliro University of Science and Technology provided an introductory letter as shown in Appendix11 that enabled acquisition of a research permit from the National Commission of Science and Technology and Innovation (NACOSTI) as shown in Appendix111. The researcher also obtained an introduction letter from MMUST to assure the respondents that the information that they gave would be treated confidentially and it would be used purely for research purposes when doing actual data collection. The researcher persuaded targeted respondents to fill up and return the questionnaires to ensure a high response rate. The questionnaire were administered through "drop and pick" method.

3.6. Research Instrument

The instrument that was used in the proposed study was a semi- structured questionnaire (Appendix I). The questionnaire was based on the nature of data collected, allocated time and the objectives of this study A Linkert Scale type questionnaire was used due to ease of administration and was also economical (.Esaiasson, 1993). The layout used in this questionnaire was broken down in to section one, which obtained general information and organizational factors, section two consisted of questions on awareness and opinions, and section three delt with the effect of performance contracting. The questionnaires was administered by "drop and pick" method. The respondents included 286 executive managers and supervisors. The respondents were drawn by way of random sampling technique.

3.6.1. Pilot Testing

The researcher conducted the pilot study before undertaking the study. Pilot testing for this study was done to test the research instruments and to establish if the tool will yield result that is needed.A pilot study was carried out at Chemelil Sugar Company but data was collected from different respondents. Seven respondents filled in the questionnaires Pilot testing employed convenience-sampling technique to achieve sample of the sugar company. A total of 36 managers were used to test the reliability and the validity of the questionnaires, which is approximately 11% of the main study sample. Cooper and Schindler (2008) assert that 10% of the main sample should constitute the pilot test. The pilot test for this proposed study is within the recommendation. Convenience sampling used respondents who were voluntarily available (Leedy & Ormrod 2005) and therefore the method was found appropriate due to distance constraints considering the location of the companies. An advantage of this sampling method was a good number of respondents could be interviewed in a relatively short time (Hair, Black & Babin, 2010) and is least expensive method.

3.7 Validity and Reliability of Data Collection Instruments

3.7.1. Validity of the Instruments

Thietart (2001) define validity as the accuracy and meaningfulness of the inferences, which are based on the research results. Esaiasson (1993) also states that validity of an instrument as the degree to which an instrument measures what it is designed to measure. Sekaran (2003) contends that the validity of the questionnaire data depends on a crucial way on the ability and willingness of the respondents to provide the information requested. The type of validity to be considered will be construct validity, which refer to the extent to which operationalization of a construct (that is; practical tests developed from a theory) do actually measure what the theory says they do. Construct validity evidence involves the empirical and theoretical support for the interpretation of the construct.

The other validity was content validity, which involves the degree to which the content of the test matches a content domain associated with the construct. A test has content validity built into it by careful selection of which items to include (Anastasi & Urbina, 1997). Items are chosen so that they comply with the test specification, which is drawn up through a thorough examination of the subject domain. Bailey (1994) notes that by using a panel of experts to review the test specifications and the selection of item, content validity of a test can be improved. This proposed study would use the expertise of other researchers.

3.7.2. Reliability of the Instruments

The reliability of a research instrument concerns the extent to which the instrument yields the same results on repeated trials (Kipkebut, 2010). The collected data in the pilot study was also used to test for reliability using Cronbach's alpha. Kipkebut (2012) states that the Cronbach's alpha is the most commonly used coefficient for the approximation of reliability of test scores for structured questionnaires and for calculating internal consistency. Kumar (2014) notes that the threshold for interpretation of reliability of the research instrument is Cronbach's alpha value of 0.7. That is calculated using the Statistical Package for Social Science (SPSS). Thus, Cronbach's alpha values less than 0.7 indicates that the research instrument is unreliable while Cronbach's alpha values equal to or greater than 0.7 indicates that the research instrument is reliable. Thus, this study retained questions from the questionnaire that had a coefficient of ≥ 0.7. The reliability test results for this was as shown below in Table 3.3

Table 3. 3: Reliability Statistics

Questions	Item Number	Cronbach's alpha coefficient	Results
Setting of performance contract objectives	7	0.811	Good
Performance contract implementation	6	0.772	Accepted
Performance contract review	7	0.833	Good
Organizational performance	7	0.790	Accepted

Source: Research study 2017

The reliability statistics results shown in Table 3.3 indicate that, the coefficient for the questionnaire items for performance contract objectives was 0.811. The coefficient for performance contract implementation was 0.772, Performance contract review questionnaire item had a Cronbach's coefficient value of 0.833 and lastly the coefficient for organizational performance was 0.790. These were all >0.7 meaning that the questionnaire was valid.

3.8 Measurement of Research Variables

The key research variables namely; Performance Contracting, Organization Performance and organizational factors was operationalized in the study and measured as outlined in the Table

Table 3. 4: Summary of the Operationalization of Variables

Variable	Operational Indicator	Question Number
Setting objectives	Ability with which the company sets its goals and objectives	Likert 5 scale rating-five questions
Performance implementation	Ability with which the company executes activities	Likert 5 scale rating -five questions
Performance review	Evaluation processes and timing	Likert 5 scale rating -five questions
Organizational performance	Growth of the firm in terms of profitability & satisfaction	Likert 5 scale five questions
Performance prior to PC implementation	For comparison purposes before and after PC	Likert 4 scale rating- poor, satisfactory, good, very good

Source Research study 2017.

3.9 Data Analysis and Presentation

Data was analyzed using a combination of both descriptive and inferential statistics. Descriptive statistics was used to analyze qualitative data where all the questionnaires received was referenced and items in the questionnaire coded to facilitate data entry. After data cleaning which entailed checking for errors in entry, descriptive statistics and frequencies was estimated for all variables and information presented in form of frequency tables. Descriptive statistics was used because they enable the researcher to meaningfully describe distribution of scores or measurements using a few indices (Saunders, Lewis & Thornhill, 2009). Data frequency distribution and cross tabulation was used in describing and explaining the situation as it is in the companies. Descriptive statistics was further used to provide a profile of company demographics. In this respect, fundamental statistical measures (averages, frequencies, percentages) were used.

Descriptive statistics was used because they enable the researcher to meaningfully describe distribution of scores or measurements using a few indices (Saunders, Lewis & Thornhill, 2009). Inferential statistics, which include Pearson Correlation Coefficient and regression analysis, was used to establish the relationship among key study variables and to test the study hypothesis.

Multiple regressions was used to determine the effect of components of performance contracting on organizational performance.

$Y = a + b_1x_1 + b_2x_2 + b_3x_3 + e$

Where:

Y = Organizational performance

a = constant

b1, - b3 = Regression coefficients

X1 = Performance contract objectives

X2 = Performance contract implementation

X3 = Performance contract review

e = Error term

3.9.1 Ethical issues and considerations

Ethics are an important consideration in research and are certain to have a strong bearing on the acceptance of the research during and after the study. The respondents were informed of the of the purpose, significance and the benefits of the study. The research protocols were followed as required for research studies. For example, relevant letters were obtained from authorities and institutions for permission to collect data and conduct research. The researcher emphasized the assurance of confidentiality with regards to answering the questionnaire truthfully and this alleviated concerns they would have had about expressing their honest opinions. Alongside this, there was no provision for name of the respondents on the questionnaire and the information provided in the questionnaire was voluntarily filled.

The respondents were assured that the information provided in the questionnaire was purely for academic purposes and not for other investigations.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents the analysis of data and discussion of the research findings. The chapter outlines the findings based on the research objectives. Data on performance contracting and performance of state owned sugar companies in West Kenya was analyzed with the help of SPSS statistical software. The research findings were presented in form of tables and graphs. Tabulation helped to summarize the data whereas graphs were used to present the study results.

4.2 Preliminaries Findings

This section presents the research preliminary findings based on the research response rate and the background information of the research respondents' .The use of respondents' background information is justified because it affects the level of respondent's response to the research questions .It also provides confidence in the overall quality of the analyzed research findings.

4.2.1 Questionnaire Response Rate

At the time of sending out questionnaires, Muhoroni sugar factory was not signing performance contracts and hence no response was realized. A total of 286 structured questionnaires were distributed to the four sugar factories. The study collected data from 207 respondents which constituted a response rate of 72.4% this response rate was excellent and representative and conforms to Mugenda and Mugenda (2003) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. In this regard, a response rate of 72.5% was adequate for the purpose of this study. Table 4.1 below shows the response rate statistics

Table 4. 1: Response rate

Response rate	N	Percent
Response	207	72.4
No response	79	27.6
Total	**286**	**100**

Source :(Research study,2017)

4.2.1.1 Response per Organization

Respondents for the study were drawn from 3 sugar manufacturing firms which was a representative sample of the study hence data collected from them was representative of the firms view of the issue that was being studied. Table 4.2 below shows the distribution of the questionnaires collected from the respondents

Table 4. 2: Response per Organization

Sugar Firm	**Frequency**	**Percent**	**Valid Percent**
Nzoia Sugar	120	58.0	58.0
Sony Sugar	25	12.1	12.1
Chemilil Sugar	62	30.0	30.0
Total	**207**	**100**	**100**

Source; (Research study, 2017)

From the response per organization results in table 4.2 above, 58.0% of the respondents were from Nzoia sugar, 12.1% from Sony sugar and 30.0% from Chemilil Sugar.

4.2.2 Background Information

The study commenced with an in-depth analysis of the respondent's background information. Specifically, the areas sought include gender category, age and period of work service.

4.2.2.1 Distribution of Respondents' by Gender

Participants were required to indicate their gender category. This was sought in view of ensuring fair engagement of male and female respondent's. The Results of the distribution of the respondents by gender were tabulated in table 4.3 below.

Table 4. 3: Distribution of respondents by Gender

Sugar Firm	**Male**	**Female**	**Percentage**
Nzoia Sugar	55	38	45%
Sony Sugar	30	27	28%
Chemilil Sugar	40	17	27%
Total	**125**	**82**	**100**

Source (Author's computation, 2017)

From the results in table 4.3 above, majority of the respondents' (125) were males while 82 were females. Though the study was dominated by males, the ratio however depict fair involvement of both gender, signifying that the finding of this study were unlikely to suffer from gender biasness.

4.2.2.2: Age of the respondents

Given that individuals of different age groups may hold variety opinion regarding different subjects, this study sought to embrace and gather opinions from all these groups. Results of the respondents' age category were presented in Table 4.4 below.

Table 4. 4: Respondents' Age category

Age category	Frequency	Percentage	Cumulative Percentage
25-29 Years	23	11.1%	11.1%
30-34 Years	34	16.4%	27.5%
35-39 Years	44	21.3%	48.8%
40-45 Years	51	24.6%	73.4%
50-54 Years	30	14.5%	87.9%
55-60 Years	25	12.1%	100%
Total	207	100%	

Source (Research study, 2017)

From the respondents age category results in table 4.4 above, 48.8% of the respondents' were aged between 35 to 60 years .Most of the respondents 24.6% were aged between 40-45 years.21.3% of the respondents' were aged between 35-39years, 11.1% of the respondents' were aged between 25 to 29 years, 12.1 % of the respondents' were aged between 55 to 60 years while 14.5% were aged between 50-54 Years. This implies that respondents from various age categories were fairly involved in this study

4.2.2.3: Respondents' Academic Qualification

Participants were required to indicate their highest educational; qualifications. This was sought in view of ensuring estimating the employee's ability of respond to the research tool and subject. Results show that most of the respondent's 34.3% held bachelor's degree, 32.3% of the respondents had reached Diploma level 26.6% of the respondents' had reached certificate level while 6.8% of the respondent's held masters degree. Drawing from the academic qualification results in table 4.5 below, all the respondents were well educated which implies that they were in a position to respond to the research subject with ease.

Table 4. 5: Respondents' Academic Qualifications

Academic Qualification	Frequency	Percentage	Cumulative Percentage
Certificate	55	26.6%	26.6%
Diploma	67	32.3%	58.9%
Bachelors Degree	71	34.3%	93.2%
Masters Degree	14	6.8%	100%
Total	207	100%	

Source (Research study, 2017)

4.2.2 .4 Work Experience

Respondents were asked to indicate the duration for which they had worked for the firm. The results as indicated in table 4.6 show that 12.1% of respondents had served for less than 5 years while 16.9% of respondents had served for duration between 6 and 10 years. It was also evident from the study that 14% of respondents had served for duration between 11 and 15 years, 19.3% of respondents had served as for over 16-20 years while 37.7% have served for over 21 years. This implies that majority of the respondents have served for long periods which translates to high experience consequently adequate knowledge on matters pertaining to process of PC.

Table 4.6: Work Experience

Work Year(s)	Frequency	Percentage
1-5yrs	25	12.1%
6-10yrs	35	16.9%
11-15yrs	29	14.0%
16-20yrs	40	19.3%
Above 21yrs	78	37.7%
Total	**207**	**100**

Source; (Research study, 2017)

4.3 Descriptive Statistical Analysis

The study was aimed at determining the effect of performance contracting on the performance of state owned sugar companies in West Kenya. The researcher used five point Likert scale showing to what extent the respondents agree or disagree with the researcher statement is regarding the research variables .The descriptive statistical results are discussed in the order of the objective in the following sub-sections

4.3.1: Relationship between Performance Contract Objectives and Organizational performance

The study sought to establish the effect of setting performance contract objectives and organizational performance .From the findings in table 4.7, the respondents agreed that they are involved in setting objectives for my PC (mean 3.70). They further agreed that PC objectives enables see the direction of our business (3.90). They also indicated that PC objectives are linked to the strategic plan mean of (3.88).The respondents also agreed that PC objectives are realistic mean of (3.68).They also indicated that Setting of objectives greatly affects organizational performance mean of (3.80).Performance measurement and target-setting area important to the growth process. While many small businesses can run themselves quite comfortably without much formal measurement or target – setting, for growing businesses the control these processes offer can be indispensable. This finding was similar to that of Messah& Kariuki (2011) who found out in their study that 41% of respondents agreed that they were involved in setting PC targets. In the same vein 178 (84.4%) of respondents agreed with the notion that PC had a link with EP, this implied that PC is largely considered by employees as having a positive impact on their performance, this was further confirmed by a response of (170) 80.6% who agreed that PC had enhanced

EP. Furthermore, Omboi& Kariuki (2011) found out that the introduction of performance based module, employees indicated that work environment in their areas had improved as they were able to work towards given targets.

Table 4.7: Setting Objectives

Setting objectives	N	Mean	Std. Deviation
Am involved in setting objectives for my PC	207	3.70	1.02
PC objectives enables me see the direction of our business	207	3.90	0.84
PC objectives are linked to the strategic plan	207	3.88	0.89
PC objectives are realistic	207	3.68	0.93
Setting of objectives greatly affects organizational performance	207	3.80	0.94

4.3.2: Relationship between Performance Contract Implementation and Organizational Performance

The study sought to investigate the relationship between performance contract implementation and organizational performance and from the findings in table 4.8, the respondents agreed that Employees are trained to improve their understanding of PC, The service charter assist me to implement the PC, PC expected outputs/ results are clearly communicated, Employees are always engaged to drive PC implementation, greatly affects organizational performance as indicated by the mean scores of (3.30, 3.53, 3.73, 3.49) respectively while they disagreed that PC has been linked to incentives with a mean score of 2.69 as shown below. Wachira &Juma (2013) investigated the effects of bureaucratic structures on strategic plan implementation in public universities in Kenya with a sample of 350 respondents using case study research design. The study found out that 28% of the respondents agreed that employee in decision making process to some extent affect productivity of the firm. These findings were similar to the findings of the study done by Omboi &Mucai (2011) who found out that organization structure. Flexibility and commitment greatly affects output of individual employees. Long, necker and Goff (1992) add that organizations that want to benefit from any strategy needs to minimize unhealthy competition and infighting among employees as it retards growth. In addition to this, Mugwira (2014) who proposed to study performance contracting implementation and employees' performance in Embu Water and Sanitation Company Limited argues that performance contract has increased efficiency and employees' commitment in public sector. Lastly, Mbuthia, Nguri, Mwangi (2012) who studied effectiveness of performance in public institutions in Nakuru County using descriptive survey research design found that performance contract influence service delivery by 48% (r= 0.478).

Table 4. 8: Performance Implementation

Performance Implementation	N	Mean	Std. Deviation
Employees are trained to improve their understanding of PC	207	3.30	1.13
The service charter assist me to implement the PC	207	3.53	0.90
PC expected outputs/ results are clearly communicated	207	3.73	0.92
Employees are always engaged to drive PC implementation	207	3.49	0.96
PC has been linked to incentives	207	2.69	1.12

Source; (Research study, 2017)

4.3.3: Relationship between Performance Contract Review and Organizational Performance

Similarly, the study sought to establish the effect of performance contract review on the organizational performance and from the findings in table 4.9, the respondents agreed that

PC review was done regularly had a mean of (3.61), PC review was done Quarterly mean of (3.58), PC evaluation was done by a task force mean of (3.36), PC evaluation criteria were known to the respondents mean (3.63) and that PC review greatly improved organization performance as indicated by the mean (3.83). A study commissioned by the Government (2010) to evaluate the challenges faced in implementing performance contracting in Kenya found that employees target setting, monitoring and evaluations play key role on performance. These findings corroborate with findings by Prajapati (2010) who noted that PC measurements play a key role in employees' performance. The findings contradict a review of the performance contracting in the public service by the Government which observed that evaluation of the ministries after ranking has impacted positively to some ministries and negatively to some.

Table 4. 9: Performance Contract Review

Performance review	**N**	**Mean**	**Std. Deviation**
PC review is done regularly	207	3.61	1.01
PC review is done Quarterly	207	3.58	1.07
PC evaluation is done by a taskforce	207	3.36	1.03
PC evaluation criteria are known to me.	207	3.63	0.93
PC review greatly improves organization performance	207	3.83	0.87

Source; (Research study, 2017)

4.3.4: Organization Performance

From the findings in table 4.10, the respondents agreed that PC had greatly improved organizational performance mean 3.53), Further it was their view that the quality of service offered to our customers had improved by embracing PC (mean 3.71). PC had reduced costs (mean 3.15), hence improved profits. PC had improved efficiency in organizations (mean 3.31) thus greatly improved organizational performance (mean 3.53) PC however had slightly led to staff motivation (mean 2.88). These findings reverberate the study done by Letangule and Leting (2012) who found out that with the introduction of performance contract in public institutions, there was enhanced value for money (mean=3.0 and Std Dev.0.625), improved input/output (mean=4.00 and Std Dev.0.873) and reduced wastage (mean=2.1 and Std Dev. 0.429). These findings are similar to findings of research conducted by Oluoch, Nyagol, &Nyandiga, (2013) & Opiyo (2009), Kubaison, (2014) and Obong'o (2009). This also conforms to Mann (2010) who established that performance contracting had improved service delivery in majority of public sector involved; this is because performance inculcated a sense of accountability in the public servants who in turn worked hard and provided services to the public in a professional manner. Similarly, Obong'o (2008); Kervasdone (2007) and Kobia& Mohammed, 2006) observed performance contracting as a way of improving public service delivery. These findings agree with Muthaura (2007); who assert that performance contracting has gradually improved profitability in the Commercial State Corporations due to close focus of the customers. Further, Gatere, Keraro& Gakure (2013) noted that performance contract had increased productivity through the introduction of citizen service delivery charters in the Teachers Service Commission (TSC) due to refocused customers' needs. Similarly, Kobia& Mohammed (2006) observed that performance improvements have been recognized in the National Customer Satisfaction Survey where the overall customer satisfaction index was (63.5).The findings are shown in table 4.10 below

Table 4. 10: Organization Performance

Organizational performance	N	Mean	Std. Deviation
PC has greatly improved organizational performance	207	3.53	0.98
PC has improved the quality of service we offer to our customers	207	3.71	0.83
PC has reduced recurrent costs thus improved profits	207	3.15	0.96
PC has improved efficiency in our organization	207	3.31	0.94
PC has led to staff motivation	207	2.88	0.97

Source Research study 2017

4.4 Inferential Statistical Results

The study also inferentiay analyzed the data to establish the relationship between the variables. This section presents the analytical result of the relationship between the study variables and discussion of the study regression model which include ANOVA, Model summary and regression analysis. The study hypotheses were tested using Pearson's product moment correlation analysis which asses the correlation between the variables .The results obtained were as shown in the subsequent tables below.

4.4.1 The relationship between Setting of performance contract objectives and organizational performance.

The study sought to establish the relationship between PC target setting and organizational performance. To test this, the study formulated the hypothesis that;

Ho_1: There is no statistically significant relationship between performance contract objectives and organizational performance.

Pearson Product Moment Correlation test was used to test this and the results are presented in table 4.11 on the next page

Table 4. 11: Pearson product Moment Correlation Results between PC objectives and organizational performance

Setting Performance contract Objectives(X1)	Firm's Performance
Pearson Correlation	0.445**
Sig.(1-Tailed)	0.000
N	207

Source: (Research Study, 2017)

The results in table 4.11 indicate that, there was positive significant moderate relationship between setting of Performance contract objectives and organization performance ($r=0.445$, $p<0.000$, $N=207$) . The results clearly indicates that there is a high tendency of improvement in the performance of sugar companies in Kenya given that the performance objectives are set and followed by the employees in the sugar companies under study . Since ($P<.0005$), the null hypothesis was rejected and concluded that setting of performance contract objectives had significant effect on organizational performance.

In a similar study conducted by (Lings,2004) in Brazil,(Slater,2009) in Canada on the effects of setting performance contract objectives organizational performance ,their studies found out that setting of performance contract objective had a significant positive effect on the organizational performance of state sugar companies .However these findings contrast the findings established by Mwanaongoro and Imbambi (2014) in a study on the effects of setting performance contract objectives on the performance of sugar companies in Kenya who found out that setting performance contract objectives had no significant effects on the performance of the state sugar companies in terms of profitability

4.4.2: The relationship between performance contract implementation and organizational performance.

The study sought to establish the relationship between PC implementation and organizational performance. To test this, the study formulated the hypothesis that;

Ho₂: There is no statistically significant relationship between Performance contract implementation and organizational performance.

Pearson Product Moment Correlation test was used to test this and the results are presented in table 4.12 below

Table 4.12: Pearson product Moment Correlation Results between PC implementation and organizational performance

Performance contract Implementation (X2)	**Firm's Performance**
Pearson Correlation	0.623**
Sig.(1-Tailed)	0.000
N	207

Source (Research Study, 2017)

From the correlation results in table 4.12, there was positive significant high correlation between Performance contract implementation and organization performance (r =0.623, p<0.000, N=207) since P-value is < 0.005, the null hypothesis was rejected and concluded that performance contract implementation had significant effect on organizational performance. These results show that there is a strong association between performance contract implementation and organizational performance of the sugar companies. These results further agree with the findings of Santarelli and Tran (2013) in Vietnam, (Gatignon & Xuereb in 2007) in Mexico and (Ojo ,2009) in Nigeria who found out that performance contract implementation had positive effects on the performance of state sugar companies in their various study areas.

4.4.3 The relationship between performance contract review and organizational performance.

The study sought to establish the relationship between PC review and organizational performance. To test this, the study formulated the hypothesis that;

Ho_3: There is no statistically significant relationship between Performance contract review and organizational performance.

Pearson Product Moment Correlation test was used to test this and the results are presented in table 4.13 below

Table 4.13: Pearson product Moment Correlation Results between PC review and organizational performance

Performance contract Review (X3)	**Firm's Performance**
Pearson Correlation	0.535**
Sig.(1-Tailed)	0.000
N	207

Source (Research study,2017)

As indicated by Correlational results in table 4.13 above ,there was positive significant moderate relationship between Performance contract review and organization performance ($r=0.535$, $p<0.000$). Since ($P\text{-value}<.005$), the null hypothesis was rejected and concluded that Performance contract review had significant effect on organizational performance. This implies that variables were linearly correlated with organization performance. The results further agree with the findings of (Gee & Ding, 2005) in China, (Pavie & Filho, 2008) in U.S.A and (Masinde & Makori, 2014) in Kenya whose studies found out that there is a strong association between performance contract review and organizational performance of state sugar companies.

The overall Correlational results in the above tables indicates that, when independent variables improve there was likelihood of organization performance to improve thus indicating that when the setting of PC objective, implementation of PC and PC review improve, the organizational performance also improves. The results on table 4.12 indicates that the highest relationship was found between Performance contract implementation and organization performance with a Pearson correlation coefficient of (0.623) followed by the relationship between performance contract review and objectives and organizational performance had the least association with Pearson correlation coefficient of (0.445)

Table 4.14: Regression Analysis Results

: PC Objectives, Implementation ,Review and Organizational performance

R	RSquare	Adjusted R Square	Std. Error of Estimate	R Square Change	df1	df2	Sig. F Change	Durbin-Watson
0.64	0.57	0.58	0.60	0.21	1.00	204.00	0.00	1.84

Predictors: (Constants)
X1, X2, X3
Dependent Variable YSource: Research study 2017

Table 4.15: ANOVA Results*

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	53.26	3.00	17.75	50.30	0.00
	Residual	71.64	203.00	0.35		
	Total	124.90	206.00			

Predictor (Constants),X1,X2,X3
Dependent Variable: Y
Source: Research study 2017

Table 4.16: Coefficient Results

Model		Unstandardized Coefficients	Std. Error	Standardized Coefficients Beta		Sig.	VIF
	Constant	0.48	0.26		1.84	0.07	
	X1	0.16	0.07	0.15	2.32	0.02	1.39
	X2	0.44	0.08	0.42	5.46	0.00	2.10
	X3	0.21	0.08	0.19	2.55	0.01	1.88

Predictor constants PC objectives X1, PC Implementation X2, PC Review X3
; Dependent Variable Y
Source: Research study 2017

4.5. Regression Analysis of Performance contract Objectives, Implementation and Review on Organizational Performance

The study sought to investigate the effect of performance contracting on the performance of state sugar firms in Western Kenya. The result on table 4.14 above shows the regression analysis of the effects of performance contract objective, implementation and review on the organizational performance of sugar companies. The table has Model Summary, ANOVA and Coefficient results for the purposes of either rejecting or accepting the study hypothesis. The study used correlation r (βeta, β) to test the hypothesis. The test criteria is such that the study rejects the null hypothesis if $\beta 1, \beta 2, \beta 3 \neq 0$ and accept the null hypothesis if $\beta 1, \beta 2, \beta 3 = 0$ (Creswell, 2012).The F-statistics general regression results was used to test the goodness of fit (Gujarati, 2004)

From the model summary in table 4.14 above there was a very positive relationship ($R=0.64$) between the dependent variable and the independent variables. The value of adjusted R Square ($R^2= 0.58$) indicates that 58% of organizational performance could be explained by the combined effort of independent variables of the study while 42% (1-0.58) could be explained by other variables not included in the study

Analysis Of Variance (ANOVA) test results in table 4.15 above indicates that the multiple regression model used in the study was highly significant and reliable in predicting how the study independent variables affect organizational performance as indicated by the P-significance value of (0.000<0.005). The regression coefficient results in table 4.16 established that when Performance contract objectives and targets, Performance contract implementation and Performance contract review equal to zero, organizational performance will be 0.48. The findings presented also show that a unit increase in the performance contract objective and targets would lead to a (0.16) improvement in the organizational performance; unit increase in the Performance contract implementation would lead to a (0.44) improvement in the organization performance, unit increase in the Performance contract review would lead to a (0.21) improvement in the organizational performance. From the regression coefficients results in table 4.12, the overall multiple regression equation can be expressed as shown below

$$\mathbf{Y = 0.48 + 0.16X1 + 0.0.44X2 + 0.21x3 + e \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots Eqtn\ 4.1}$$

As shown in equation 4.1 above, Performance Contract Implementation have greater influence on organizational performance (β=0.44), followed by performance contract review (β=0.21), while performance contract objectives (β=0.16), had the lowest influence. The regression equation shows that setting of performance contract objectives, implementation of performance contract and the review of performance contract positively affects organizational performance. This means that results reject all three hypotheses which states that: Ho1: Setting of performance contract objectives has no significant effect on organizational performance. ***Ho_2***: Performance contract implementation has no significant effect on organizational performance. ***Ho_3***: Performance contract review has no significant effect on the organizational performance.

The findings of this study support the findings by Ducker, (1984), and Hope, (2013) who found that setting of performance contract objectives and targets enhances a firm's performance. The results also support findings of Armstrong, (2006) and Bouckaert, Verhoest & De Corte (2017) who found out that performance contract implementation is extensively important to the organizational performance of a company However, contrast to the study findings Kipyego (2011). Vabo, (2009) and Mohamed, (2009) found out that performance contract implementation had no effect on organization performance. Lastly Wheeler, (2001) and Williams (2004) establish a significant positive relationship between performance contract review and organizational performance which agrees with the results findings of this study.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

This chapter presents the summary of findings contained in the preceding chapter. Based on the findings a number of conclusions were drawn and recommendations made. Areas for further research were also suggested.

5.2. Summary of the Findings

The study was set out to meet the following objectives: To establish the effect of setting of performance contract objectives on organizational performance in the state owned sugar companies, to establish the effect of performance contract implementation on organizational performance in the state owned sugar companies and to establish the effect of performance contract review on organizational performance in the state owned sugar companies. Study adopted a cross-sectional descriptive research design in which qualitative and quantitative data were collected. The target populations were employees of the public sugar companies in Western Kenya. A sample of 286 was identified for the study through stratified sampling from the managers who sign performance contracts. Questionnaires were utilized to collect primary data from respondents. Secondary data was gathered from firm's strategic plans and websites. Frequencies, percentages, mean scores were used to analyze the data with the help of SPSS, Chi Square was used to test the hypotheses, and correlation was used to establish the relationship between variables and multiple regressions was used for prediction. The summary of the findings per the objectives are briefly discussed below.

5.2.1. Performance Contract Objectives and Targets and organizational performance

The study found out that setting PC objectives enables businesses to have a clear direction; PC objectives were linked to the strategic plan. Similarly setting realistic PC objectives greatly affects organizational performance as indicated by the mean scores of 3.88, 3.68 and 3.80 respectively. Pearson's correlation analysis revealed that there was positive significant correlation between Performance contract objectives and targets and organization performance ($r = 0.445$, $p < 0.000$) .Lastly performance contract objectives was found to positively influence the organizational performance as indicated by a positive significant coefficient of (0.16) in the regression model

5.2.2. Performance contract implementation and organizational performance

The study found out that Employees were trained to improve their understanding of PC, The service charter assist in the implementation of the PC, PC expected outputs/ results were clearly communicated, Employees were always engaged to drive PC implementation which greatly affect organizational performance as indicated by the mean scores of (3.30, 3.53, 3.73, 3.49) respectively While they disagreed that PC had been linked to incentives with a mean score of (2.69).Pearson's correlation analysis revealed that there was positive significant correlation between Performance contract implementation and organization performance ($r=0.623,p< 0.000$).Lastly performance contract implementation was found to positively influence the organizational performance as indicated by a positive significant coefficient of (0.44) in the regression model

5.2.3. Performance Contract Review and organizational performance

The study found out that PC review was done regularly, PC review is done Quarterly, PC evaluation was done by a taskforce, PC evaluation criteria were known to the respondents and that PC review greatly improves organization performance .They were found to greatly affect organizational performance as indicated by the mean scores of (3.61, 3.58, 3.36, 3.63 and 3.83) respectively. The study established that performance contract review positively correlates with organizational performance as shown by Pearson Correlational value of ($r = 0.535$, $p < 0.000$). Significantly, the study found out that performance contract review positively affects the organizational performance as indicated by a positive significant coefficient value of (0.21) in the regression model .

5.3. Conclusions

5.3.1. Performance contract objectives and organizational performance

The first Hypothesis postulated that Ho_1: Setting of performance contract objectives had no significant effect on organizational performance. The study findings established that there is a positive and significant relationship between performance contract objectives and organizational performance .The null hypothesis was rejected and concluded that setting of performance contract objectives had significance effect on organizational performance.

5.3.2. Performance contract implementation and organizational performance

The second Hypothesis postulated that Ho_2: Performance contract implementation had no significant effect on organizational performance. The study found out that performance contract implementation positively and significantly affects organizational performance.

Therefore the null hypothesis was rejected and concluded that Performance contract implementation had significance effect on organizational performance.

5.3.3. Performance Contract Review and organizational performance

The third Hypothesis postulated that $\boldsymbol{Ho_3}$: Performance contract review had no significant effect on the organizational performance. However from the study findings it was established there was a positive and significant relationship between performance contract review and organizational performance therefore the null hypothesis was rejected and concluded that Performance contract review had significance effect on organizational performance.

5.4. Recommendations

Recommendations were made based on the conclusion of each study objectives. The state of sugar industry is in a poor state. While some companies are on receivership, others are seeking bail out from the Government to either pay debts like farmers unpaid dues or expand their operations .This study recommends the policies and strategies Following the results from the study findings .

5.4.1 Setting performance contract objectives and organizational performance

The study findings established a statistically significant relationship between setting of performance contract objectives and organizational performance. Therefore the study recommends that to the management of the Sugar Companies in western Kenya setting of organizational objectives and targets should be effectively integrated to the departmental units. This will stimulate effective competition amongst the departments as each will be motivated to come up with targets that are attainable within a given time frame. As a result this will have ripple effect in the general performance of the company.

5.4.2 Performance contract implementation and organizational Performance

From the study findings it was concluded that Performance contract implementation had a statistically significant positive relationship with organizational performance .Therefore the study recommends that 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 owned sugar companies 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.

5.4.3 Performance Contract Review and organizational Performance

Similarly the study found out that performance contract review had a significant positive effect on the organizational performance .Therefore the study recommends that 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. 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 policy framework and regulatory mechanisms to be put in place by principle share holder to punish or reward poor or good performance based on commitment of resources, solid performance measures and outcomes.

5.5. Suggestions for further research

Based on the study findings, conclusion and recommendations the study proposes the following areas for further studies: First, other factors apart from performance contracting can be explored to see how they affect the performance of public sugar firms since collectively the model used here only explained 64% of the variation in organization performance. Secondly, another study should be carried out on the perceptions against future trends in the performance contracting in the country.Thirdly, another study should be carried out on privately owned sugar companies in Kenya in order to allow generalization of the study in the sugar manufacturing firms in Kenya.

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APPENDIX I: QUESTIONNAIRE

My name is **Andrew Opiyo Mwalim**, a student at MMUST conducting a research on a topic entitled '**Effect performance contracts on organizational performance of sugar manufacturing firms in Western Kenya.** "This is in partial fulfillment of the requirements for the Award of a post graduate degree in Business Administration, strategic management. Please spare your ten minutes to respond to these questions. All information you provide will be treated with utmost confidentiality, and only used for academic purposes. Thank you in advance.

Please Tick appropriately

SECTION 1: BACKGROUND INFORMATION

Kindly answer all the questions either by ticking in the boxes or writing in the spaces provided.

1. Gender: Male ☐ Female ☐

2. Age of Respondents

25-34 years	☐
35- 44 years	☐
45-54 years	☐
55-64 years	☐
Above 65 years	☐

3. Education level of Employees

Certificate	☐
Diploma	☐
Bachelor's Degree	☐
	☐

Master's degree

PhD

4 Indicate your organization

Nzoia Sugar	Sony Sugar	Muhoroni Sugar	Chemilil Sugar

5 Indicate your employment level

Senior Manager	Supervisor

6 For how long have you worked for the company?

1-5 yrs.	6- 10 yrs.	11-15 yrs.	16 – 20yrs	Above 21yrs

SECTION 3: PERFORMANCE CONTRACT

1. Please indicate the extent to which you agree to the statements

Setting objectives

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly agree
Am involved in setting objectives for my PC					
PC objectives enables me see the direction of our business					
PC objectives are linked to the strategic plan					
PC objectives are realistic					
Setting of objectives greatly affects organizational performance					

Performance implementation

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly agree
Employees are trained to improve their understanding of PC					
The service charter assist me to implement the PC					
PC expected outputs/ results are clearly communicated					
Employees are always engaged to drive PC implementation					
PC has been linked to incentives					

Performance review

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly agree
PC review is done regularly					
PC review is done Quarterly					
PC evaluation is done by a taskforce					
PC evaluation criteria are known to me.					
PC review greatly improves organization performance					

Organizational performance

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly agree
PC has greatly improved organizational performance					
PC has the quality of service we offer to our customers					
PC has reduced recurrent costs thus improved profits					
PC has improved efficiency in our organization					
PC has led to staff motivation					

Thank you

Appendix II: MMUST INTRODUCTION LETTER

MASINDE MULIRO UNIVERSITY OF SCIENCE AND TECHNOLOGY (MMUST)
School of Business and Economics

Office of the Chairman, Business Administration and Management Sciences Department

Tel: 056-30282
Fax: 056-30153
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P.O Box 190
Kakamega – 50100
Kenya

Website: *www.mmust.ac.ke*

20th July 2017

TO WHOM IT MAY CONCERN:

Dear Sir/Madam,

REF: INTRODUCTION OF MR. ANDREW OPIYO MWALIM MBA/G/46/12

The above named is a bona fide Post Graduate student of our School undertaking a Master of Business Administration (Strategic Management) degree. He is in his final year of study.

As part of his course, he is to undertake a research titled "**Performance Contracting aAnd Performance of State Owned Sugar Companies in Western Kenya.**" The research study is purely for academic purposes.

We kindly request you to accord him the necessary assistance to enable him fulfil the requirements of the course.

I sincerely thank you in advance for your assistance.

DR. ROBERT K.W. EGESSA
Senior Lecturer and Chairman,
Department of Business Administration and Management Sciences

Appendix III: RESEARCH PERMIT

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: 889735

Date of Issue: 13/September/2020

RESEARCH LICENSE

This is to Certify that Mr.. ANDREW MWALIM OPIYO of Masinde Muliro University of Science and Technology, has been licensed to conduct research in Bungoma, Kakamega, Kisumu, Migori on the topic: EFFECT OF PERFORMANCE CONTRACTING AND PERFORMANCE OF STATE OWNED SUGAR COMPANIES IN WESTERN KENYA for the period ending : 13/September/2021.

License No: NACOSTI/P/20/6574

889735

Applicant Identification Number

Director General
NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

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Appendix IV: Map of State Owned Sugar Companies in Kenya