

Contractual Employment and Performance of State-Owned Entities in Kenya



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ABSTRACT: The purpose of this study was to assess the influence of contractual employment on performance of State-Owned entities in Kenya. This study used the positivist research philosophy by setting up the hypotheses on the basis of the existing theories. The study used descriptive research design. The accessible population of the study was 714 management employees of state-owned entities in Nairobi city. This study adopted Yamane's (1967) formula in determining the sample sizes. The sample size for state owned entities is 256. Primary information was collected by the use of semi-structured questionnaires. Using the statistical package for the social sciences, the data were analyzed using simple linear and multiple moderated regression models. To analyze the data, both descriptive and inferential statistics were applied. The results showed a positive relationship between contractual employment and organizational performance ($R = 0.602$, $R^2 = 0.362$) and ($F(1,199) = 4.226$, $p = 0.031$). The R^2 explains the variations in the organizational performance as explained by the contractual employment. R^2 of 0.362 indicates that 36.2% of the variations in the organizational performance in State-Owned entities in Kenya can be accounted for by contractual employment. The study's recommendations were based on the findings, which said that state-owned entities should prioritize various contractual employment practices like internship contract programs, short-term contract employment, seasonal contract and temporary fixed term work. These practices could see positive improvement on the performance. Since this study was limited to state-owned entities, future studies should explore the relationship between contractual employment practices and performance of other sectors other than public sector.

KEY WORDS: Contractual employment, performance, state-owned entities **JEL:** L25, H11, O15

ETHICAL DECLARATIONS

1. This article is my original piece and has not been published nor submitted anywhere else for publication.
2. I am the main author of this paper and the co-authors are all my university supervisors at the various Kenyan Universities.
3. All my supervisors (Herein indicated as co-authors) have expressly given their authority and approval for the publication of this article.
4. This article is a requirement for the Jomo Kenyatta University of Agriculture and Technology before the doctorate degree can be conferred on me.
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INTRODUCTION

The performance of state-owned entities (SOEs) has long been a subject of scholarly and policy debate, particularly in developing economies where these entities play a critical role in driving economic growth and delivering public services. One of the key factors influencing the performance of SOEs is the nature of their employment practices, particularly the use of contractual employment. Contractual employment, characterized by fixed-term contracts and limited job security, has become increasingly prevalent in both public and private sectors globally. While proponents argue that it enhances flexibility and cost-efficiency, critics contend that it

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may undermine employee motivation, commitment, and overall organizational performance. This study seeks to examine the influence of contractual employment on the performance of state-owned entities in Kenya, contributing to the broader discourse on labor practices and organizational effectiveness.

Globally, the shift towards contractual employment has been driven by the need for organizational agility in response to dynamic economic conditions. In developed economies such as the United States and European Union nations, contractual employment has been widely adopted to reduce labor costs and adapt to market fluctuations (Kalleberg, 2009). However, research indicates that this trend has had mixed outcomes. For instance, while some studies suggest that contractual employment can lead to increased productivity due to heightened competition among workers, others highlight its negative impact on employee morale and long-term organizational performance (Jafri, 2013; De Cuyper et al. 2008). The global discourse thus underscores the need for a balanced approach to employment practices, ensuring that flexibility does not come at the expense of employee well-being and organizational stability.

In Africa, the adoption of contractual employment in state-owned entities has been influenced by structural adjustment programs and public sector reforms aimed at improving efficiency and reducing fiscal burdens (Mulungwe, 2020). Countries such as South Africa, Nigeria, and Ghana have implemented contractual employment policies in their SOEs, often with varying degrees of success. For example, in South Africa, contractual employment has been associated with improved service delivery in some sectors, but it has also been criticized for exacerbating job insecurity and reducing employee loyalty (Naidoo, 2019). The African context, therefore, presents a unique scenario where the tension between economic efficiency and social equity is particularly pronounced, necessitating further research to understand the implications of contractual employment on SOE performance.

In Kenya, state-owned entities are pivotal to the country's socio-economic development, providing essential services in sectors such as energy, transport, and healthcare. However, many of these entities have faced persistent challenges, including inefficiency, financial mismanagement, and poor service delivery (Bolatito, 2023). In recent years, the Kenyan government has increasingly turned to contractual employment as a strategy to revitalize SOEs, aiming to attract specialized skills and reduce long-term wage bills. While this approach has shown some promise, concerns have been raised about its impact on employee retention, institutional memory, and overall organizational performance (Ong'era & Musili, 2019). Against this backdrop, this study seeks to explore the influence of contractual employment on the performance of state-owned entities in Kenya, providing insights that could inform policy and practice in the public sector.

STATEMENT OF THE PROBLEM

State-owned entities (SOEs) in Kenya play a critical role in the country's socio-economic development, providing essential services in key sectors such as energy, transport, water, and healthcare. However, many of these entities have historically been plagued by inefficiencies, financial mismanagement, and poor service delivery, undermining their ability to fulfill their mandates effectively (Awiti et al. 2018). In response to these challenges, the Kenyan government has increasingly adopted contractual employment as a strategic intervention to enhance operational efficiency, attract specialized skills, and reduce long-term wage bills. While contractual employment offers potential benefits such as flexibility and cost-effectiveness, its implications for employee motivation, organizational commitment, and overall performance remain poorly understood.

Globally, the use of contractual employment has yielded mixed outcomes, with some studies highlighting its potential to improve productivity and others pointing to its adverse effects on employee morale and institutional stability (Mulungwe, 2020). In the African context, including Kenya, the adoption of contractual employment in SOEs has often been driven by public sector reforms aimed at improving efficiency. However, concerns have been raised about its impact on job security, employee retention, and the erosion of institutional memory, which are critical for the sustained performance of SOEs (Naidoo, 2019; Bolatito, 2023; Ong'era & Musili, 2019). Despite these concerns, there is limited empirical evidence on how contractual employment specifically influences the performance of state-owned entities in Kenya.

This study, therefore, seeks to address this gap by examining the influence of contractual employment on the performance of state-owned entities in Kenya. Specifically, it aims to explore the extent to which contractual employment affects employee productivity, organizational commitment, and service delivery within SOEs. By doing so, the study will provide valuable insights into the effectiveness of contractual employment as a human resource strategy in the public sector, contributing to policy discussions on how to optimize the performance of state-owned entities in Kenya and beyond.

Study Objective

- i. To evaluate the influence of contractual employment on performance of state-owned entities in Kenya.
- ii. To determine the moderating effect of human resource policy on the influence of contractual employment on performance of state-owned entities in Kenya.

RESEARCH HYPOTHESIS

H₀₁: There is no significant influence of contractual employment on performance of state-owned entities in Kenya.

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H02: Human resource policy has no significant moderating effect on the influence of contractual employment on organizational performance of state-owned entities in Kenya.

LITERATURE REVIEW

The section looks at the theoretical review and empirical review based on the study objectives.

Social Contract Theory

Social Contract Theory is associated with three major modern philosophers; Thomas Hobbes, John Locke and Jean-Jacques Rousseau (Hobbes, 1964; Gauthier, 1977; Tienda, 2002). These theorists agreed that the formation of the State-Owned entities and governance is the product of organizational performance. The implication is that, the State-Owned entities and its management cannot be in place if the employees do not collectively consent to establish them (Faber, 2014). The theory guides contractual employment as one of the variables of the study. Social Contract Theory sets in motion the picture of an ideal State-Owned entities where the authority of the state and its management is legitimized by the consent of contractual employment. It provides the practice of contractual employment which explains human relations and existence in promoting organizational performance.

Social Contract Theory provides a general framework for inquiry, genuine dialogue and analysis into how contractual employment practice is established and implemented. It attempts to establish the theoretical base for the establishment of contractual employment practices, since firms are settled in a wide scope of political and financial foundations that impact their conduct (Dow, 2003). These contain powers external to the firm at both macro and field levels in which the organization operates (Peng et al. 2014). This exploration demonstrates the conditions under which contractual employments are probably going to change their consultation modes in helping organizations identify and investigate problems concerned with strategy, policy, markets organization, procedures and methods, hence achieving organizational performance. The theory offers a hypothetical focal point by which researchers can perceive and evaluate components that guide survival and authenticity of organizational activities, including components like culture, history, societal setting, mandates, traditions, and financial impetus, perceiving that assets are fundamental (Brunton et al., 2017). Authenticity, for this situation, applies to the execution of manageable practices regarded appropriate by partners (DiMaggio & Powell, 1983). Social Contract theory is commonly engaged with how organizations improve and secure their status and authenticity by consenting to the traditions such as administrative bodies, authoritative associations, lawful orders, and other social practices that use conformance requests (Glover et al., 2014).

In strong terms Ellis (2012) asserts that the principle of Social Contract Theory is by all means the framework of contemporary system of contractual employment. The array of assertions linking Social Contract Theory with contractual employment no doubt proves that there are links between them. In 2005 Thomas Friedman complained that many State-Owned entities do not apply the practice of Social Contract Theory in contractual employment among employees to establish their human resource. This is the problem in most State-Owned entities in Kenya (Wandera, 2011). John Locke's Social Contract Theory over the years has come under several criticisms. Those who criticize Social Contract Theory assert that his ideas are incoherent, hypothetical, unrealistic and ahistorical in nature (Olssen, 2021).

However, there are those who also argue that the principles of Locke's Social Contract Theory are synonymous with the principles of contractual employment and as a result that provides useful framework for analyzing and understanding the practice of governance (Ellis, 2012; Wandera, 2011; Olssen, 2021). That is why Ward (2005) concludes that John Locke was the Harbinger of democracy. Elsewhere, Olssen (2021) confess that despite the several criticisms and deficiencies associated with social contract generally, scholars have not stopped using it as a model of analysis in different areas of research. This shows that irrespective of the tag of absoluteness attached to Social Contract Theory by its critics it has not lost its allurements in research and management practice. Social Contract Theory demonstrates that external powers of social, political, and financial affairs sway organizations' strategies and basic leadership, as these associations try to execute authentic exercises to suit their different partners such as contractual employments (Bitektine & Haack, 2015). The theory can be used to clear up how changes in social standards, technology development, and strategies impact choices in connection to contractual employments (Grob & Benn, 2014). Tate et al. (2010) utilized social contract theory to examine how different organization strategies lead to the execution of quality service practice through contractual employments.

Studies done before have discovered that real facilitators of contractual employments are centered in the firm to ensure proper utilization of resources in achieving organizational performance (Glover *et. al.*, 2014). Institutions produce desires that set up quality service measures for organizations, surrounding the method of reasoning through which strategies, conducts, and lead desires seems client responsive from contractual employments (Scherer, 2013). Subsequently, organizations can describe what is reasonable or acceptable as a conduct (Kaptein, 2023). As such, diverse practices forbidden or even past thought impact the basic leadership of firms. This offers consciousness of the part played by contractual employments in the advancement of organizations' reasonable practices and their job in achieving consistence in the set controls by the organizations' executives (Bowman & West, 2021).

The social contract perspective considers the part played by contractual employments in consistence with administrative and social weights in impacting organizational performance (Van Slyke, 2007). The solid suit of social contract theory is that it comprehends associations as parts of complex social structures, as a solution for existing conceptualizations that understand organizations in

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intelligent and non-relative ways. This study proposes a social contract theory of the diverse consultation methods of the board firms through contractual employments practices. Organizations are obligated to tailor their consulting ways to deal with the way of life of the customer or nation they are working in.

It contends that the connection between major monetary and social conditions, and consultation mode, by contractual employments is interceded by various institutional criteria. The presence of administrative bodies, social standards, helpful conduct among firms, and arranged discourse among contractual employments and their customers conform to contracting practices pressures towards achieving organizational performance. This study comprehends social contract theory viewpoint what encourages and represses contracting conveyance in the executives consulting firms in developing markets. The study also makes two fundamental commitments to the management consulting. From one viewpoint, it centers on an indispensable piece of the management consulting that has gotten next to no thought in writing, that is, the edge between contractual employments services (Brunton *et al.*, 2017).

This theory relates contractual employment practices toward the organizational performance. Then again, it moves writing in a further hypothetically arranged way by proposing the social contractual theory of received contractual employments conduct from the expert consultants. Identifying with the overall distinction of the hypothetical standpoints talked about in this investigation, it is evident that this examination will view the resource-based view and the social contract theory of the firm in connection to facilitators of service quality in contractual employments in State-Owned entities in Kenya.

EMPIRICAL REVIEW

Contractual employment practices refer to various types of employment agreements that differ from traditional permanent employment. According to Buengeler and Lehmann-Willenbrock (2022) these practices include internship contract programs, short-term contract employment, seasonal contracts, and temporary fixed-term contracts. They provide organizations with the flexibility to meet fluctuating business demands, control labor costs, and access specialized skills on an as-needed basis (Kalleberg & Marsden, 2021). For employees, these types of contracts can offer opportunities to gain work experience, develop new skills, and enjoy greater work-life balance. However, they also come with challenges such as job insecurity, limited benefits, and potential barriers to career advancement (Lloyd-Walker *et al.*, 2018).

Internship contract programs are designed to provide students and recent graduates with hands-on work experience in their field of study. These programs serve as a bridge between academic learning and professional employment, allowing interns to apply theoretical knowledge in real-world settings (Edwards & Hertel-Fernandez, 2021). Internships can be paid or unpaid, full-time or part-time, and typically last for a fixed duration, such as a semester or summer term. For organizations, internship programs are a valuable talent pipeline, offering a low-risk way to evaluate potential future employees and foster relationships with academic institutions (Feldman, 2021). Interns bring fresh perspectives, new ideas, and up-to-date knowledge, contributing to organizational innovation and productivity. Moreover, well-structured internship programs benefit both the interns and the organization by providing meaningful learning experiences and professional development opportunities (Gault *et al.*, 2021). Organizations should ensure that internships include structured learning objectives, regular feedback, and mentorship to maximize the intern's growth and satisfaction. Additionally, by offering competitive compensation and clear pathways to permanent employment, companies can attract top talent and build a strong employer brand. The success of internship programs can be measured by the conversion rate of interns to full-time employees, intern satisfaction surveys, and the overall impact on organizational performance (NACE, 2021).

Short-term contract employment on the other hand involves hiring workers for a specific, limited duration to complete particular tasks or projects. These contracts can range from a few weeks to several months and are often used to meet temporary increases in workload, cover for absent employees, or bring in specialized expertise (Kalleberg & Marsden, 2021). Short-term contracts offer flexibility to both employers and employees, allowing organizations to scale their workforce up or down based on business needs without the long-term commitment of permanent hires. For employees, these contracts can provide opportunities to work on diverse projects, gain varied experience, and maintain a flexible work schedule (Smith, 2022). However, short-term contract employment also presents challenges, including job insecurity and limited access to benefits such as health insurance, retirement plans, and paid leave (Houseman, 2021).

Employers must balance the benefits of workforce flexibility with the need to maintain employee morale and engagement. Providing clear communication about contract terms, offering competitive pay, and ensuring a positive work environment can help mitigate some of the downsides of short-term contracts. Additionally, organizations should consider the potential impact on organizational culture and team dynamics when frequently relying on short-term contract workers (Burgess & Connell, 2021). Additionally, seasonal contracts are a type of employment agreement used to hire workers for specific periods of the year when there is a peak in business activity, such as holiday seasons, harvest periods, or tourist seasons (Kalleberg & Marsden, 2021). These contracts are common in industries like retail, agriculture, hospitality, and tourism, where demand for labor fluctuates significantly based on the time of year. Seasonal contracts provide organizations with the flexibility to manage varying labor needs and control costs by hiring additional staff only when necessary. For workers, seasonal employment can offer temporary job opportunities, supplemental income, and work experience (Smith, 2022). However, seasonal contracts also come with challenges, such as job insecurity, variability in income, and limited career advancement opportunities (Houseman, 2021). Employers must ensure compliance with

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labor laws and regulations regarding seasonal employment, including fair wages, working conditions, and employment rights. Providing training, clear communication, and support can enhance the experience for seasonal workers and improve retention rates for future seasons.

Additionally, organizations can build a pool of reliable seasonal employees by maintaining good relationships with past seasonal workers and offering incentives for returning each year (Burgess & Connell, 2021). Besides, temporary fixed-term contracts are agreements where employees are hired for a specific period to complete particular tasks or projects. These contracts are used to address short-term business needs, such as project-based work, covering for permanent employees on leave, or dealing with temporary spikes in workload (Kalleberg & Marsden, 2021). For employees, these contracts can offer opportunities to gain diverse work experience, develop new skills, and explore different career paths (Smith, 2022).

Despite their advantages, temporary fixed-term contracts also pose challenges, including job insecurity, lack of benefits, and potential impacts on employee morale and loyalty (Houseman, 2021). Employers should ensure that temporary workers are integrated into the team and provided with the necessary resources and support to perform their roles effectively. Clear communication about contract terms, fair compensation, and opportunities for contract renewal or conversion to permanent positions can help address some of the concerns associated with temporary fixed-term employment. Additionally, organizations should be mindful of legal and regulatory requirements regarding the use of temporary contracts to avoid potential disputes and ensure fair treatment of all employees (Burgess & Connell, 2021).

MATERIALS AND METHODS

This study used the positivist research philosophy by setting up the hypotheses on the basis of the existing theories. The study used descriptive research design. The accessible population of the study was 714 management employees of state-owned entities in Nairobi city. This study adopted Yamane's (1967) formula in determining the sample sizes. The sample size for state owned entities is 256. Primary information was collected by the use of semi-structured questionnaires. Simple Linear and Multiple Moderated Regression models were used to analyze the data using statistical package for the social sciences. Descriptive and inferential statistics were used to analyze the data.

FINDINGS AND DISCUSSION

Descriptive statistics

The study analysed the views of the respondents in respect to contractual employment practices. Table 1 shows the results of the analysis.

Table 1: Descriptive Statistics for Contractual Employment practice

Statement	N	S.D	D	N	A	S.A	Min	Max	Mean	Std. Dev
	(%)	(%)	(%)	(%)	(%)	(%)				
Internship contract programs have significantly helped problem solving.	201	4.0	0.5	10.0	45.8	39.8	1	5	4.17	.923
Short-term contract employment leads to better knowledge management.	201	1.0	2.5	5.0	46.8	44.8	1	5	4.32	.767
Seasonal contract employment gives prompt service delivery.	201	3.5	1.0	8.5	45.3	41.8	1	5	4.21	.903
Temporary fixed term work has led to proper diagnostic analysis.	201	0.5	1.5	6.0	50.7	41.3	1	5	4.31	.696
Contracts raise the business game of the organization and increase personal fulfillment.	201	0.0	3.5	7.0	56.2	33.3	1	5	4.19	.712
Existing contractual terms in the organization are satisfactory.	201	3.5	1.0	6.5	40.8	48.3	1	5	4.29	.905
Contractual, short-term employees are increasingly utilized to support organizational performance.	201	2.5	4.5	7.0	50.7	35.3	1	5	4.12	.903
Weighted mean		4.23								
Valid N (Listwise)		201								

The findings in Table 1 indicates that the respondents agreed with (Mean =4.17; Std Dev =0.923) that internship contract programs have significantly helped problem solving. The findings further indicated that the respondents agreed (Mean = 4.32; Std Dev = .767) that Short-term contract employment leads to better knowledge management. The respondents in this study also agreed (Mean = 4.21; Std Dev = .903) that Seasonal contract employment gives prompt service delivery. Further, the respondents from the study indicated an agreement of Mean = 4.31; Std Dev = .696) that temporary fixed term work has led to proper diagnostic analysis.

The findings if this study yet again indicated that respondents agreed with (Mean =4.19; Std Dev = .712) that contracts raise the business game of the organization and increase personal fulfillment. The respondents also concurred with (Mean =4.29; Std Dev =0.905) that Existing contractual terms in the organization are satisfactory. Finally, the respondents from this study agreed with

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(Mean = 4.12; Std Dev = .903) that Contractual, short-term employees are increasingly utilized to support organizational performance. These findings of this study were in line with Berkery et al. (2017) study which found out that Using Ward's hierarchical clustering algorithm we identified four distinct bundles of FWAs based on the uptake of twelve individual FWAs across the sample of organizations.

Bundle 1 represents organizations engaging in a high level of annual hour's contracts; bundle 2 represents more traditional work practices; bundle 3 represents organizations mainly offering shift-work and bundle 4 represents organizations with a high uptake of flexi-time. The demographic profile of organizations recorded across each of the four bundles was significantly different. Finally, significant associations were found between the bundle membership and employee turnover ($p < 0.001$), absenteeism ($p < 0.001$) and productivity ($p < 0.015$).

Content Analysis on How Contractual Employment Influences Performance in the Organization.

The study sought to establish the respondents' opinion as to whether contractual employment influences performance of their organizations. The results are presented in Table 2.

Table 2: Respondents' opinion on CE and performance

Opinion	Frequency	Percentage
Yes	187	93.03
No	14	6.97
Total	201	100

From the results in table 2, 93% (187) of the respondents agreed that contractual employment influences performance of the State-Owned entities in Kenya against 6.97% (14) who responded otherwise. A large number of these respondents argued that contractual employment can significantly influence organizational performance in various ways, both positively and negatively. Understanding these impacts, they argue is crucial for effectively managing a workforce that includes contractual employees. According to the respondents, the positive influences include: Flexibility and cost efficiency. The respondents cited that one of the primary benefits of contractual employment is the flexibility it offers. The organizations can adjust their workforce based on demand, scaling up during peak periods and reducing headcount during slower times.

This adaptability is argued to help manage labor costs more efficiently and thus ensuring that the organization is not overstaffed during low-demand periods. Contractual employees are often hired for specific projects or seasonal needs, allowing the organization to meet short-term objectives without the long-term commitment of permanent hires. The respondents also cited access to specialized skills as another positive influence of contractual employment. They argued that contractual employment allows organizations to bring in specialized skills and expertise that may not be available within the permanent workforce. A respondent gave an instance of his entity that hires contract workers with specific technical skills or industry experience for short-term projects.

This access to specialized talent is seen to enhance the quality of work and therefore leads to innovative solutions that might not have been possible in otherwise cases. Contractual employment also influences faster hiring process in a number of the respondents' State-Owned entities. The respondents argued that the hiring process for contractual employees is typically quicker than for permanent positions. This speed can be crucial in situations where immediate expertise is needed to address urgent projects or fill temporary gaps. A faster hiring process thus ensures that projects stay on track and that there is minimal disruption to the organization's operations.

Content Analysis on negative Contractual Employment Influences Performance in the Organization.

On the other hand, the respondents also argued on the negative influence of contractual employment on performance to include a number of issues within the State-Owned entities. These issues included reduced commitment and loyalty. In this case, the respondents cited that contractual employees might not exhibit the same level of commitment and loyalty to the organization as permanent employees. Knowing that their tenure is temporary, contract workers might be less motivated to go above and beyond their basic responsibilities. This can affect the overall morale and productivity of the team, especially if the permanent staff perceives a lack of dedication from their temporary colleagues. Additionally, the respondents also highlighted the issues of knowledge and experience loss in which case, contractual employment is seen as potential cause especially when the contract ends.

Contract workers often possess valuable insights and skills that are not fully transferred to the permanent team before they leave. This loss can be particularly detrimental if the knowledge is critical to ongoing projects or strategic initiatives. Besides, the respondents also said that contractual employment may lead to integration and cohesion Issues. In this regard, they argued that integrating contractual employees into the organizational culture can be challenging since they might not fully assimilate into the team dynamics. This which can lead to issues with cohesion and collaboration. Permanent employees might also be wary of building strong working relationships with contract workers, knowing that they will be leaving after a short period. This lack of integration can hinder teamwork and communication, impacting overall performance.

One respondent went ahead to give a parting shot on the way forward as a solution to these influences. The respondent explained that the balancing of the impact would be that maximizing the benefits and mitigating the drawbacks of contractual employment,

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the State-Owned entities would need to adopt strategic streamlined HR practices. These according to the respondent would include providing adequate onboarding and training to contractual employees to ensure they understand the organization's processes and culture. There also should be clear communication about project goals and expectations that can help align their efforts with the organization's objectives. Moreover, the respondent suggested fostering an inclusive work environment where contract workers would feel valued and part of the team could also enhance their engagement and productivity.

INFERENTIAL STATISTICS

Factor Analysis on Contractual Employment

To describe the variability among the observed variables Factor analysis was carried out and also to check for any correlated variables with the aim of reducing data that would otherwise have been considered unusable. Traditionally, statements scoring more than 30% and above were included (Shrestha, 2021). Factor analysis on contractual employment on organizational performance. The Table 3 displays the results.

Table 3: Component Matrix for Contractual Employment

	Component 1
Internship contract programs have significantly helped problem solving.	.743
Short-term contract employment leads to better knowledge management	.507
Seasonal contract employment gives prompt service delivery	.646
Temporary fixed term work has led to proper diagnostic analysis	.649
Contracts raise the business game of the organization and increase personal fulfillment	.589
Existing contractual terms in the organization are satisfactory.	.461
Contractual, short-term employees are increasingly utilized to support organizational performance.	.584

Extraction Method: Principal Component Analysis.

a. 1 components extracted.

The results in Table 3 shows the extract of the seven statements attributed to the variable contractual employment. The results indicated that the higher the extract value the more the factor contributes to the variable. Thus, most of the respondents agreed with the statements put across in reference to their entities' contractual employment practices to >30% Jovic et al. (2017) and hence none was viable for dropping.

Correlation between Contractual Employment and Organizational Performance

The correlation between contractual employment and organizational performance in State-Owned entities was examined and results presented in Table 4.

Table 4: Contractual Employment

		Organizational Performance
Contractual Employment	Pearson Correlation	.602*
	Sig. (2-tailed)	.031
	N	201

*. Correlation is significant at the 0.05 level (2-tailed).

The results from Table 4 indicate that there is a positive and statistically significant correlation between contractual employment and organizational performance at ($r = 0.602$, $p < 0.031$) at 0.05 level of significance. This implies that contractual employment significantly influences organizational performance in State-Owned entities in Kenya.

Regression analysis

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The findings shown on Table 5 shows a two-model summary for contractual employment when moderated by human resource policy and when the effects of the moderating variable is excluded.

Table 5: Regression Model Summary for Contractual Employment

Model	R	R Square	Adjusted Square	RStd. Error of the Estimate	Change Statistics	R Change	Square F Change	df1	df2	Sig. F Change
1	.602 ^a	.362	.339	.414	.362	4.226	1	199 ^a		.031
2	.659 ^b	.434	.429	.413	.072	.302	1	198 ^b		.036

a. Predictors: (Constant), Contractual Employment

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b. Predictors: (Constant), Contractual Employment * Human Resource Policy

From Table 5, the **Model 1** showed a positive relationship between contractual employment and organizational performance ($R = 0.602$, $R^2 = 0.362$) and ($F(1,199) = 4.226$, $p = 0.031$). The R^2 explains the variations in the organizational performance as explained by the contractual employment. R^2 of 0.362 indicates that 36.2% of the variations in the organizational performance in State-Owned entities in Kenya can be accounted for by contractual employment. The results from Table 5 yet again showed **Model 2** which gives the results after the interaction of independent variable and the moderator (Contractual Employment * Human Resource Policy) was introduced in the model. The results showed a positive relationship between Contractual Employment and organizational performance).

An R^2 value of 0.434 indicates that 43.4% change in the organizational performance of State-Owned entities as can be accounted for by the interaction between Contractual Employment and Human Resource Policy that is (Contractual Employment * Human Resource Policy). At 0.05 level of significance, $p = 0.036$ hence very significant. The adjusted R^2 is a modified version of R^2 that has been adjusted for the number of predictors in the model. The adjusted R^2 increases only if the new term improves the new model otherwise, it ought to be lower than the R^2 . From Table 4.38 therefore, it is evident that the moderator improved the initial model 1 into model 2.

When the interaction term (Contractual Employment * Human Resource Policy) is included in the relationship between Contractual Employment and organizational performance it resulted in a R^2 change of .072 or 7.2%. This indicated the moderating effect of Human Resource Policy explained 7.2% of the variation in the organizational performance above the variation as explained by the Contractual Employment. This showed significant presence of the moderating effect of Human Resource Policy on the influence of Contractual Employment on organizational performance of State-Owned entities in Kenya. The Table 6 shows the results of the test of significance given the two models. One without the moderator and the other with the effect of the moderator.

Table 6: Significance Test Results for Contractual Employment

Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Coefficients Beta		
1	(Constant)	2.315	.411		8.063	.000
	Contractual Employment	.638	.097	.602	4.056	.031
2	(Constant)	1.987	.421		8.043	.000
	Contractual Employment	.228	.111	.166	2.061	.025
	Human Resource Policy	.352	.062	.449	3.126	.037

a. Dependent Variable: Organizational Performance

Model 1 indicates that relationship between Contractual Employment and Organizational performance was positive and significant ($b_1 = 0.638$, $p = 0.031$, $Beta = 0.602$). Equation 4.5 thus showed the regression equation for model 1. For every unit increase in Contractual Employment, Organizational performance is predicted to increase by 0.638 at $p = 0.031$.

OLS Model:

Organizational performance = 2.315 + 0.638 Contractual Employment **equation 1**

This implies that an increase in information relating to Contractual Employment leads to an increase in Organizational Performance of State-Owned entities. The null hypothesis which states that Contractual Employment has no significant effect on Organizational Performance was therefore rejected at 95% confidence level. The study therefore fails to reject the alternative hypothesis and concludes that Contractual Employment has a significant effect on Organizational Performance of State-Owned entities in Kenya.

Model 2 shows that the moderating effect of Human Resource Policy on the influence of Contractual Employment on Organizational Performance of State-Owned entities in Kenya was positive and significant ($b_1 = 0.228$, $p = .0025$, $Beta = 0.166$).

Equation 2 thus showed the multiple moderated regression equation. The equation implies that for every unit increase in Contractual Employment, Organizational Performance is predicted to change by 0.228 on condition that Human Resource Policy is kept constant. The null hypothesis is therefore rejected at 95% level of confidence. It is thus concluded that Human Resource Policy moderates the influence of Contractual Employment on Organizational Performance.

MMR Model:

Performance = 1.987 + 0.228 Contractual Employment + 0.352 Human Resource Policy **Equation 2**

Hypotheses Testing of the Results

In this study, t-test was used to test for individual significance of a coefficients under the null hypothesis. The test was done at 95% level of confidence ($\alpha = 0.05$), critical value $t = 1.96$. The null hypothesis is rejected when the t-calculated is strictly greater than the t-tabulated.

H₀₁: Contractual Employment practice has no significant influence on organizational performance in State-Owned entities in Kenya.

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The test was done at 95% level of confidence ($\alpha=0.05$), critical value $t=1.96$. T-test statistic was used to test for the significance of *Contractual Employment practice*. From Model 1 in Table 6, the t-value obtained was 4.056. Comparing the t-tabulated and t-calculated values statistically, it is thus evident that the $t\text{-calc} > t\text{-}\alpha$. This study therefore rejected the null hypothesis and concludes that contractual employment practice has a significant effect on the State-Owned entities in Kenya. The study hence fails to reject the alternative hypothesis.

SUMMARY OF THE FINDINGS

The study sought to examine the effect of Contractual employment practice and organizational performance in State-Owned Entities in Kenya. The study indicated that contractual employment practice positively and significantly influenced the performance of State-Owned entities in Kenya. It also indicated that contractual employment practice is a factor that promotes the performance of State-Owned Entities in Kenya. These findings meant that the null hypothesis that Contractual Employment has no statistically significant influence on performance of State-Owned entities in Kenya was rejected. These findings were in line with other studies that found a positive relationship between temporary employment and employer performance.

According to the scholars, the employer took up temporary employment as an alternative to reach of permanent employment and with the hope of gaining permanent employment in the longer term. This motivated them to work harder to enhance their performance. The study also found that the organization was promoting the employability of the employers by providing handsome salary and enhancing their employability of the employer through contract renewal. The purpose of the study was to examine the job satisfaction and employer performance level of contractual employee at Bihar Vikas Mission (BVM). This gives the contractual employee a sense of job security which enhances their performance and satisfaction level.

CONCLUSION

In conclusion, this study underscores the significant influence of contractual employment on the performance of state-owned entities (SOEs) in Kenya, revealing a positive and statistically significant relationship between the two variables. The findings indicate that contractual employment practices, such as internship programs, short-term contracts, seasonal employment, and temporary fixed-term work, contribute to organizational performance by enhancing quality service delivery, efficiency, effectiveness, enhanced productivity. However, the study also highlights potential challenges, including reduced employee commitment, knowledge loss, and integration issues, which can negatively impact performance. The moderating role of human resource policy further strengthens this relationship, suggesting that well-structured HR practices can mitigate the drawbacks of contractual employment while amplifying its benefits. These insights provide valuable implications for policymakers and managers in SOEs, emphasizing the need for strategic HR interventions to optimize the use of contractual employment while fostering a cohesive and motivated workforce. Future research should explore these dynamics in other sectors to broaden the understanding of contractual employment's impact on organizational performance across different contexts.

RECOMMENDATIONS OF THE STUDY

In light of the findings, it is recommended that state-owned entities (SOEs) in Kenya adopt comprehensive human resource (HR) policies that strategically balance the benefits and challenges of contractual employment. Policymakers should prioritize the development of frameworks that ensure fair treatment, adequate onboarding, and integration of contractual employees into organizational culture to mitigate issues such as reduced commitment and knowledge loss. Additionally, HR practices should emphasize clear communication of contract terms, competitive compensation, and opportunities for skill development to enhance employee motivation and performance. From a theoretical perspective, the study underscores the relevance of Social Contract Theory in understanding the dynamics of contractual employment, suggesting that future theoretical frameworks should incorporate institutional and cultural contexts to better explain the interplay between contractual practices and organizational performance in diverse settings.

RECOMMENDATION FOR FURTHER STUDIES

Future research should expand the scope of this study by exploring the influence of contractual employment on organizational performance in other sectors, such as private enterprises and non-governmental organizations, to provide a comparative perspective. Methodologically, mixed-methods approaches combining quantitative surveys with qualitative interviews could offer deeper insights into employee experiences and organizational outcomes. Additionally, studies should consider broader geographical contexts, including cross-country comparisons, to assess the generalizability of findings across different economic and cultural environments.

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