

**Abstract:**

This study sought to establish the relationship between performance contracts (PCs) and financial performance (FP) of two key state corporations (SCs) in the transport sector; the Kenya Railways Corporation (KRC) and the Kenya Airports Authority (KAA). In addition, the study sought to compare the measures and indicators of performance as well the extent of government subsidies after the introduction of PCs. A comparative study research design was used to establish the relationship between PCs and FP. The period of study was from 30th June, 2000 to 30th June, 2009 (which covers before and after the introduction of PCs).