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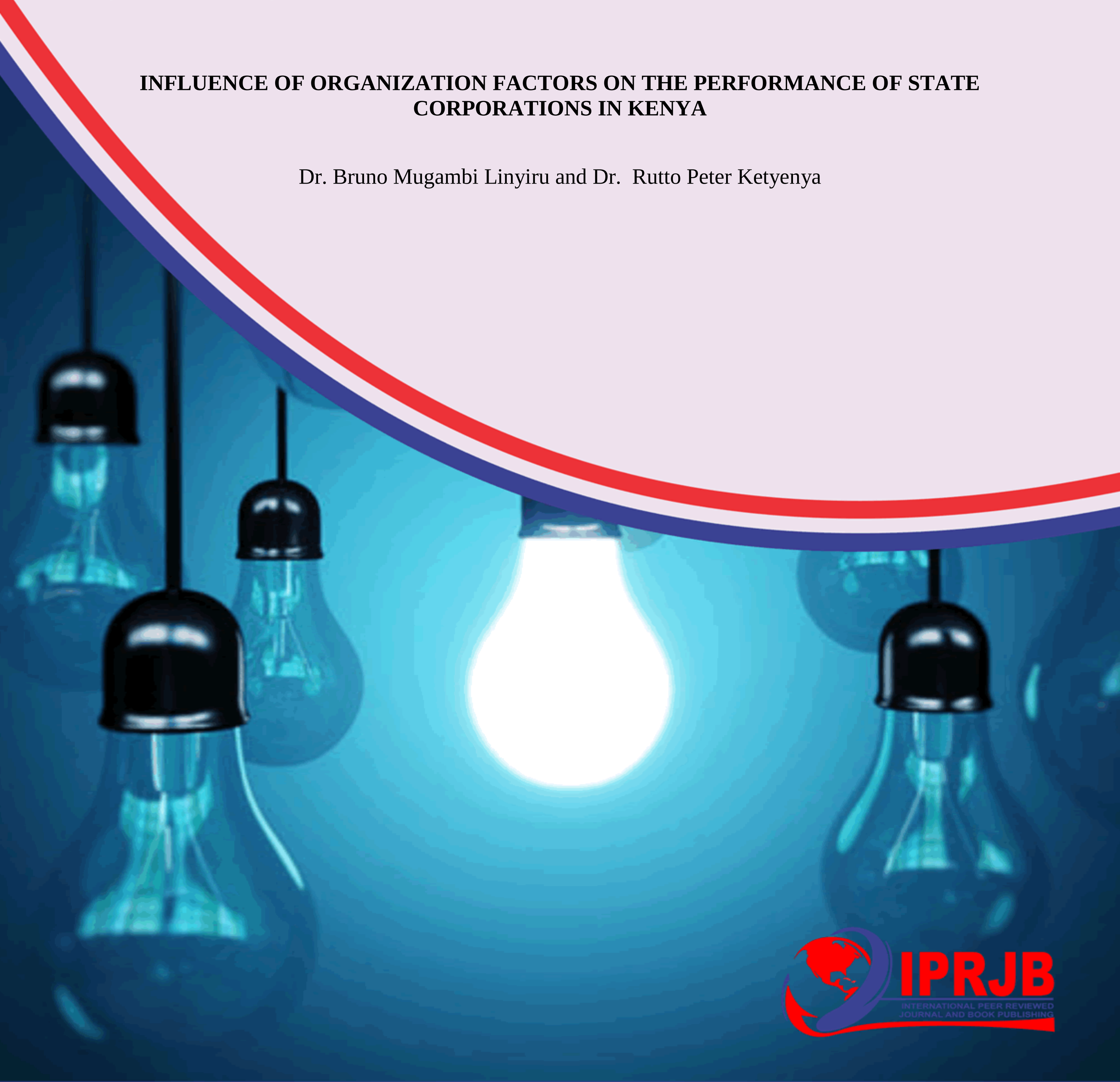

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INFLUENCE OF ORGANIZATION FACTORS ON THE PERFORMANCE OF STATE CORPORATIONS IN KENYA

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ABSTRACT

Purpose: The purpose of this study was to determine the influence of organization factors on the performance of state corporations in Kenya.

Methodology: The study adopted an explanatory research design. The population of the research consists of the 187 state corporations in Kenya as at 2013. The unit of analysis was the state corporation. A purposive sample of 55 commercial state corporations was included in the study. The study used primary data gathered using questionnaires.

Results: Results indicated that organization factors are key determinants of firm performance for commercial state corporations in Kenya.

Conclusion: Organizational factors were statistically significant in explaining firm performance of commercial state corporations. It can therefore be concluded that for any firm to have better results should manage the organizational factors and nurture conducive environment for all employees to work in.

Keywords: *organizational factors, state corporations, performance*

INTRODUCTION

The evolution of organizations and change management system in planning, require new ways of orientation and requires organizations to continuously adapt to environmental changes inside and outside the organization. Organization's environment includes a set of 'actors' and interest groups represented by owners, managers, customers, suppliers, etc., known in the literature as stakeholders, who are directly or indirectly affected by the organization's work and have the means control over it. These conditions requires achieving harmony between the organization's external (economic, political, technological, legal) and internal environment (resources, structure, organizational culture, leadership style, manner of exercising the power).

Organizations should identify the factors related to the success of their organization, since failure in achieving the goals related to these factors may lead to the failure of the organization. A key success factor is a performance area of critical importance in achieving consistently high productivity. There are at least 2 broad categories of key success factors that are common to virtually all organizations business processes and human processes. Human processes include good leadership, good communication, vision, teamwork and embracing change, resources, structure, organizational culture, leadership style, manner of exercising the power (Porter, 2001).

Mang'unyi (2011) carried out a study to explore the ownership structure and Corporate Governance and its effects on performance of firms. His study focused on selected banks in Kenya. His study revealed that there was significant different between Corporate Governance and financial performance of banks. The study recommended that corporate entities should promote Corporate Governance to send positive signals to potential investors and those regulatory agencies including the government should promote and socialize Corporate Governance and its relationship to firm performance across industries.

Miring'u and Muoria (2011) analyzed the effects of Corporate Governance on performance of commercial state corporations in Kenya. Using a descriptive study design, the study sampled 30 SCs out of 41 state corporations in Kenya and studied the relationship between financial performance, board composition and size. The study found a positive relationship between Return on Equity (ROE) and board compositions of all State Corporations.

Dehaene et al. (2001) found that board size is positively related to company performance. However, the results of Haniffa et al. (2006) are inconclusive. Using a market return measure of performance, their results suggest that a large board is seen as less effective in monitoring performance, but when accounting returns are used, large boards seem to provide the firms with the diversity in contacts, experience and expertise needed to enhance performance. Yermack (2006) finds an inverse relationship between board size and firm value; in addition, financial ratios related to profitability and operating efficiency also appear to decline as board size grows.

A study conducted in Kenya by Ongore and K'Obonyo (2011) on interrelations among ownership, board and manager characteristics and firm performance in a sample of 54 firms listed at the Nairobi Stock Exchange (NSE). Using PPMC, Logistic Regression and Stepwise Regression, the paper presents evidence of significant positive relationship between foreign, insider, institutional and diverse ownership forms, and firm performance. However, the relationship between ownership concentration and government, and firm performance was significantly negative. The role of boards was found to be of very little value, mainly due to lack of adherence to board member selection criteria. The results also show significant positive relationship between managerial discretion and performance. Collectively, these results are consistent with pertinent literature with regard to the implications of government, foreign, manager (insider) and institutional ownership forms, but significantly differ concerning the effects of ownership concentration and diverse ownership on firm performance.

Empirical evidence on the effect of the board size on performance is mixed. Manderlier et al (2009) found that board size has a positive impact on operational efficiency, suggesting that a large number of directors positively influence the rationalization of operational costs. On the contrary, Bermig (2010) demonstrated that smaller boards are more effective in monitoring management and thus associated with better performance. He found a significant negative effect on the board size and earnings management suggesting that smaller boards are more efficient in monitoring. But benefits of this have to be compared with disadvantages when other dimensions of the firm performance are taken into account. Wu et al (2009) also found that firm performance is negative and significant in relation to board size.

Statement of the Problem

In the constantly changing business environment companies tend to seek for new opportunities on the market where they can develop and sustain their competitive advantage and outperform competitors. In some environments, organizational factors of a firm leads to higher firm performance, and, thus, firms tend to be more entrepreneurial in order to improve their position on the market (Rauch et al., 2009). State corporations in Kenya have performed poorly compared to their private counterparts. Evidence of this is in the poor performance contracting results by majority of parastatals. Specifically, only a few commercially oriented corporations have reported profit or surplus. This is an economic problem that policy makers are still grappling with. The problem of poor performance of commercial parastatals represents a drain on the exchequer and also results into non delivery on intended services. This has a negative implication on the welfare of Kenyan Citizens and may also imply that Vision 2030 is not met.

In Kenya, many studies (Lwamba, Bwisa and Sakwa, 2014; Mokaya, 2012) have been conducted on factors that influence performance of enterprises; however, they fail to address commercial state corporations. For example, Mayaka (2006) in their studies of leading Kenya companies concentrated on the factors that lead to the companies' success in order to develop a case study.

Objectives

i. To determine the influence of organization factors on the performance of state corporations in Kenya.

LITERATURE REVIEW

Theory of Entrepreneurship

Theory of entrepreneurship is a psychological approach, necessary to understand entrepreneurship. It argues that any theory of entrepreneurship should use active actions as a starting point — entrepreneurship is the epitome of an active agent in the market (rather than a reactive agent). The term entrepreneur originally meant an owner-manager, often the founder of business, the man who combined land, labour and capital for productive use. It is now sometimes used to refer to the innovative manager, who may or may not be the owner, or for the manager who makes crucial decisions for the company (Dale, 1987). According to Petrin (1997) entrepreneurship is defined variously so that to some, entrepreneurship means primarily innovation, to others it means risk-taking, while to others, a market stabilizing force and to others

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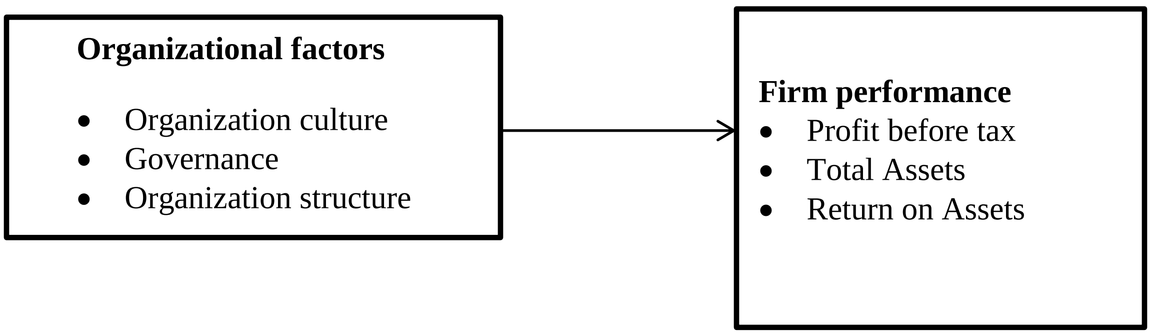
still, it means starting, owning and managing a small business. Quoting from Tyson, Petrin and Rogers (1994), Petrin (1997) adds that the entrepreneur is viewed as a person who either creates new markets, finds new sources of supply and new organizational forms; or as a person who is willing to take risks; or a person who, by exploiting market opportunities, eliminates disequilibrium between aggregate supply and aggregate demand, or as one who owns and operates a business. EO therefore encompasses creation of new combinations of production factors, new markets, and new sources of supply and new organizational forms.



Conceptual framework: Figure 1

RESEARCH METHODOLOGY

This study was quantitative in nature and employed an explanatory research design. This study comprised of 187 state corporations in Kenya which also form the target and accessible population. A purposive sampling methodology was employed since 55 commercial state corporations were selected from a total of 187 state corporations. Each firm was issued with one questionnaire which can either be filled by the chief executive officer, company secretary, finance director, division directors or business development manager.

The study used questionnaires to obtain qualitative data for analysis which was further validated from analysis of secondary data. To check the validity and reliability of the questionnaires in gathering the data required for purposes of the study, a pilot study was carried out. Descriptive statics was used to present results.

RESULTS AND DISCUSSION

Response Rate

The number of questionnaires, administered to all the respondents, was 55. A total of 45 questionnaires were properly filled and returned from the commercial state corporation employees. This represented an overall successful response rate of 82%. According to Mugenda and Mugenda (2003), a response rate of 50% or more is adequate. Babbie (2004) also asserted that return rates of 50% are acceptable to analyze and publish, 60% is good and 70% is very good.

Table 1: Response Rate

Response Rate	Frequency	Percent
Returned	45	82%
Unreturned	10	18%
Total	55	100%

Gender of the Respondents

The respondents were asked to indicate their gender. Figure 2 that majority (80%) of the respondents was male and 20% were female. The findings imply that state corporation sector is a male dominated field. According to Ellis et al. (2007), in spite of women being major actors in Kenya's economy, and notably in agriculture and the informal business sector, men dominate in the formal sector citing the ratio of men to women in formal sector as 0.74 : 0.26.

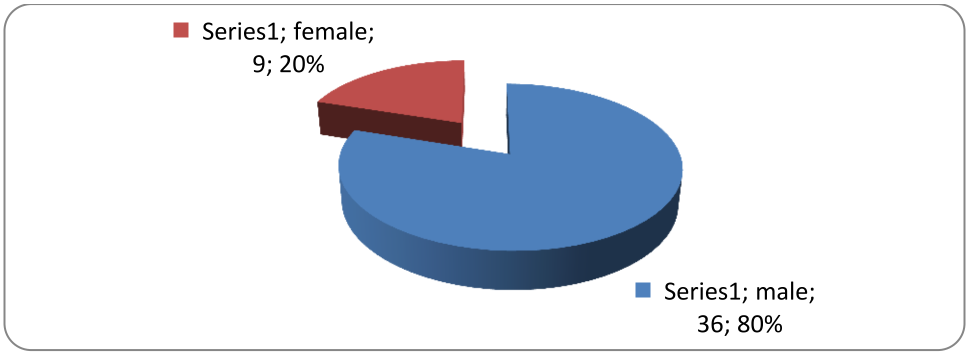


Figure 2: Gender of the Respondents

Level of Education

The respondents were asked to indicate their highest level of education. Figure 3 illustrates that 89% of the respondents had reached post graduate level and 11% had attained university level. The findings imply that most of the respondents had high level of education which could have contributed to accurate responses.

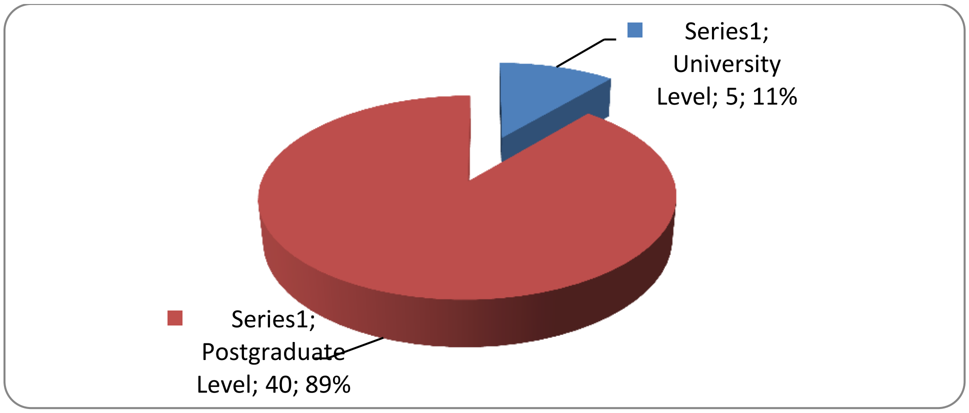


Figure 3: Level of Education

Years Worked in the Organization

The study sought to find out the years the respondents had worked in the organization. Table 2 shows that 51.1% of the respondents indicated they had worked for 6 years and above while 42.2% indicated between 3 to 5 years and 6.7% indicated less than 2 years. The findings imply that the respondents had worked long enough in the hotel industry and hence had knowledge about the issues that the researcher was looking for.

Table 2: Years Worked in the Organization

Years worked	Frequency	Percent
Less than 2 years	3	6.7
3-5 years	19	42.2
6 years and above	23	51.1
Total	45	100

Size of Organization

The respondents were asked to indicate the size of the organization. Figure 4 indicates that 49% of the respondents indicated that their organizations were large (500 employees and above) while 44% indicated small (1-249 employees) and 7% indicated medium (250-499 employees).

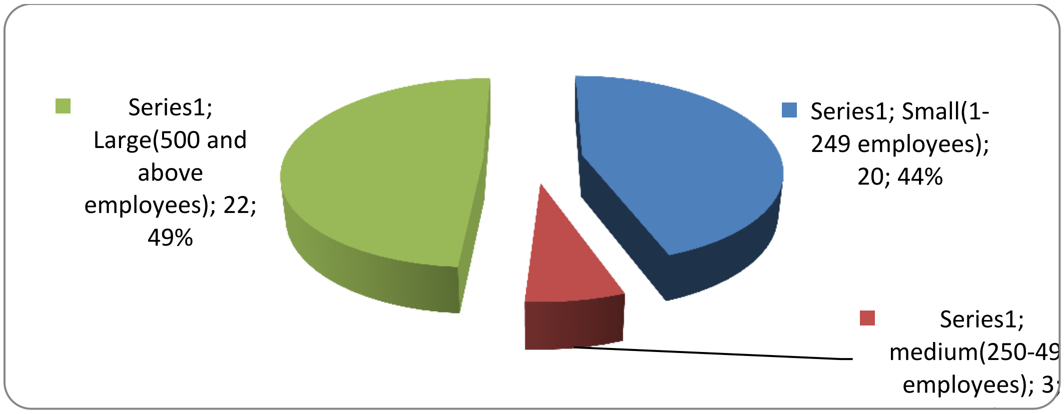


Figure 4: Size of the Organization

Years of the Firm Existence

The respondents were asked to indicate the years of the firms' existence. Table 3 shows that 66.7% of the respondents indicated 16 years and above while 20% indicated between 11-15 years and 13.3% indicated between 1-5 years.

Table 3: Years of the Firm Existence

Years of the firm`s existence	Frequency	Percent
1-5 years	6	13.3
11-15 years	9	20
16 and above years	30	66.7
Total	45	100

Reliability Tests

Using Cronbach's Coefficient Alpha test on organizational factors and firm performance, a coefficient of 0.729 was found as shown in Table 4. These results corroborates findings by Saunders Lewis and Thornhill (2009) and Christensen, Johnson and Turner (2011) who stated that scales of 0.7 and above, indicate satisfactory reliability. Based on these recommendations, the statements under the organizational factors variable of this study were concluded to have adequate internal consistency, therefore, reliable for the analysis and generalization on the population.

Table 4: Reliability Test for Organizational Factors

Statement	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
The company has a competitive culture	0.423	0.715
The organization structure favours Coordination and communication	0.248	0.751
The company has engaged in strategic alliances to boost it performance	0.47	0.705
The company is effective at lobbying the government and funding organizations for more resources	0.556	0.682
The organization has well trained and competent work force	0.468	0.715
The board of directors offers a adequate oversight	0.555	0.683
Our company has independent board committees in place to enhance effective monitoring.	0.505	0.698
Number of items	7	
Cronbach's Alpha	0.739	

Sampling Adequacy

To examine whether the data collected was adequate and appropriate for inferential statistical tests such as the factor analysis, regression analysis and other statistical tests, two main tests were performed namely; Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy and Barlett's Test of Sphericity. For a data set to be regarded as adequate and appropriate for statistical analysis, the value of KMO should be greater than 0.5 (Field, 2000).

Findings in Table 5 showed that the KMO statistic was 0.812 which was significantly high; that is greater than the critical level of significance of the test which was set at 0.5 (Field, 2000). In addition to the KMO test, the Bartlett's Test of Sphericity was also highly significant (Chi-square = 456.424 with 21 degree of freedom, at $p < 0.05$). The results of the KMO and Bartlett's Test are summarized in Table 5. These results provide an excellent justification for further statistical analysis to be conducted.

Table 5: Organizational Factors KMO Sampling Adequacy and Bartlett's Sphericity Tests

Kaiser-Meyer-Olkin Measure	0.812
Bartlett's Chi- Square	456.424
Bartlett's df	21
Bartlett's Sig.	0

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Factor Analysis

Factor analysis was conducted after successful testing of validity and reliability using KMO coefficient and cronbach alpha results. Factor analysis was conducted using Principal Components Method (PCM) approach. The extraction of the factors followed the Kaiser Criterion where an eigen value of 1 or more indicates a unique factor. Total Variance analysis indicates that the 7 statements on organizational factors and firm performance can be factored into 1 factor. The total variance explained by the extracted factor is 82.48% as shown in Table 6. The factor loading and communalities of the variable are shown in Appendix IV.

Table 6: Organizational Factors Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	5.774	82.48	82.48	5.774	82.48	82.48
2	0.699	9.979	92.458			
3	0.192	2.742	95.2			
4	0.129	1.84	97.04			
5	0.119	1.697	98.738			
6	0.072	1.028	99.766			
7	0.016	0.234	100			

Extraction Method: Principal Component Analysis.

Table 7 shows the factor loadings for sub-constructs of organizational factors. All the statements attracted coefficients of more than 0.4 hence all the statements were retained for analysis. According to Rahn (2010) and Zandi (2006) a factor loading equal to or greater than 0.4 is considered adequate. This is further supported by Black (2002) who asserts that a factor loading of 0.4 has good factor stability and deemed to lead to desirable and acceptable solutions.

Table 7: Factor Loading for Organizational Factors

Item	Factor loading
Our company has independent board committees in place to enhance effective monitoring.	0.927
The board of directors offers a adequate oversight	0.913
The company is effective at lobbying the government and funding organizations for more resources	0.834
The company has engaged in strategic alliances to boost it performance	0.802
The organization has well trained and competent work force	0.653
The company has a competitive culture	0.652
The organization structure favours Coordination and communication	0.572

Descriptive Analysis

The fifth objective of the study was to determine the influence of organization factors on the performance of state corporations in Kenya. Table 8 shows 55.6% of the respondents agreed that the company has a competitive culture, 48.9% agreed that the organization structure favours coordination and communication and 66.6% agreed that the company has engaged in strategic alliances to boost its performance. Forty eight point nine percent of the respondents agreed that the company was effective at lobbying the government and funding organizations for more resources, 84.5% agreed that the organization has well trained and competent work force, 66.7% agreed that the board of directors offers a adequate oversight and 73.4% agreed that their company has independent board committees in place to enhance effective monitoring. The mean score for responses for this section was 3.33 which indicates that majority of the respondents agreed that organizational factors were key determinant of firm performance.

Means greater than 1 and less than 1.5 implied that organizational factors influenced performance to no extent. Means greater than 1.5 and less than 2.5 implied that organizational factors influenced performance to a little extent. Means greater than 2.5 and less than 3.5 implied that organizational factors influenced performance to a moderate extent. Means greater than 3.5 and less than 4.5 implied that organizational factors influenced performance to a greater extent. Means greater than 4.5 implied that organizational factors influenced performance to a very great extent.

The standard deviation on the other hand describes the distribution of the response in relation to the mean. It provides an indication of how far the individual responses to each factor vary from the mean. A standard deviation of more than 1 indicates that the responses are moderately distributed, while less than 1 indicates that there is no consensus on the responses obtained. An average of 1.00 for all statements on organizational factors indicates that the responses are moderately distributed.

The findings are consistent with those of Miring'u and Muoria (2011) who analyzed the effects of Corporate Governance on performance of commercial state corporations in Kenya. Using a descriptive study design, the study sampled 30 SCs out of 41 state corporations in Kenya and studied the relationship between financial performance, board composition and size. The study found a positive relationship between Return on Equity (ROE) and board compositions of all State Corporations.

The study findings further agree with those in Manderlier et al (2009) found that board size has a positive impact on operational efficiency, suggesting that a large number of directors positively influence the rationalization of operational costs.

Table 8: Organizational Factors and Firm performance

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Likert Mean	Std. Deviation
The company has a competitive culture	0.0%	17.8%	26.7%	37.8%	17.8%	3.56	0.99
The organization structure favours Coordination and communication	0.0%	22.2%	28.9%	37.8%	11.1%	3.38	0.96
The company has engaged in strategic alliances to boost it performance	0.0%	26.7%	6.7%	62.2%	4.4%	3.44	0.943
The company is effective at lobbying the government and funding organizations for more resources	0.0%	24.4%	26.7%	26.7%	22.2%	3.47	1.1
The organization has well trained and competent work force	0.0%	2.2%	13.3%	66.7%	17.8%	4	0.64
The board of directors offers a adequate oversight	6.7%	8.9%	17.8%	48.9%	17.8%	3.62	1.093
Our company has independent board committees in place to enhance effective monitoring.	13.3%	8.9%	4.4%	55.6%	17.8%	3.56	1.271
Average	2.9%	15.9%	17.8%	48.0%	15.6%	3.58	1.000

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Relationship between Organizational Factors and Firm Performance

Table 9 shows the correlation results which indicate that there was a positive and significant relationship between organizational factors and firm performance. This was evidenced by the p value of 0.000 which is less that of critical value (0.05)

Table 9: Relationship between Organizational Factors and Firm Performance

Variable		Firm performance	Organizational Factors
Firm performance	Pearson Correlation	1	
	Sig. (2-tailed)		
Organizational Factors	Pearson Correlation	0.624	1
	Sig. (2-tailed)	0.000	

Binary logistic regression was used to model relationship between organizational factors and firm performance**.** Table 10 shows that organizational factors was statistically associated with firm performance ($p<0.020$). An increase in organizational factors effectiveness increases the probability of having high firm performance by 15.699 times. The findings imply that those firms with effective organizational factors have higher chances of having higher firm performance as compared to those without organizational factors.

Table 10: Logistic Regression for Organizational Factors

Variable	**Beta**	**S.E.**	**Wald**	**df**	**Sig.**	**Exp(B)**	**95% C.I. for EXP(B)**	
							Lower	**Upper**
Organizational Factors	2.754	0.888	9.619	1	0.002	15.699	2.755	89.453
Constant	-9.305	3.134	8.814	1	0.003	0		

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Summary of the Findings

The objective of the study was to determine the influence of organization factors on the performance of state corporations in Kenya. Results revealed that organizational factors were one of the key drivers of firm performance for state corporations. Majority of the respondents agreed that organization structure favours coordination and communication, the company has engaged in strategic alliances to boost it performance, the organization has well trained and competent work force, the board of directors offers a adequate oversight and the company has independent board committees in place to enhance effective monitoring. Organizational factors were statistically associated with firm performance ($p<0.020$). An increase in organizational factors effectiveness increases the probability of having high firm performance by 15.699 times. The findings imply that those firms with effective organizational factors have higher chances of having higher firm performance as compared to those without organizational factors.

Conclusions

Organizational factors were statistically significant in explaining firm performance of commercial state corporations. It can therefore be concluded that for any firm to have better results should manage the organizational factors and nurture conducive environment for all employees to work in.

Recommendations

The study is a justification of the fact that an organization with competitive innovativeness skills has a deep understanding of the business enterprises which catapults their growth to a large extent. The study recommends that the management should use technology in controlling the production cost while maintaining competitive prices as it results in continued profitability of a firm and therefore growth. Managers should be efficient time managers with a control on the firm cost of operation to help provide a working schedule and competitive prices which fit the client needs.

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