

**THE EFFECT OF AUTONOMY ON FINANCIAL PERFORMANCE  
OF COMMERCIAL STATE CORPORATIONS IN KENYA**

**BY**

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BUSINESS.**

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## DECLARATION

This research project is my original work and has not been presented for a degree in any other university.

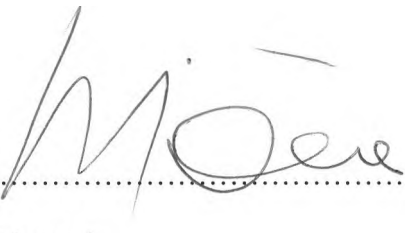
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## **DEDICATION**

This research is dedicated to my children Thomas, Kyrle, and Nina that it may inspire them achieve even higher levels of education. It is also dedicated to all finance managers in all commercial state corporations. To the in charge, inspectorate of state corporations. To my parents Joseph and Dorcas whose desire for education has propelled me to higher levels of education. To my family, my husband Dr. Owino and children who are the main reason behind my inspiration to achieve higher levels of Education. My sincere thanks to you all.

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## ABBREVIATIONS

CIPFA –	The Chartered Institute of Public Finance and Accounting
FPI-	Financial Performance Indicators
IFAC –	International Federation of Accountants
IPSASs –	International Public Sector Accounting Standards
KNH-	Kenyatta National Hospital
NPM-	New Public Management
OECD-	Organization of Economic and Corporation Development
SCAC-	State Corporations Advisory Committee
SPSS-	Statistical Package for Social Science

## ABSTRACT

Autonomy is the quality of state of being self – governing, especially the right or power of self – government, existing or capable of existing independently, and subject to its laws only. In other words, the issue is one of “degree of autonomy rather than an absolute autonomous state. While autonomy has made the process of financial accountability for the nature and quality of services provided by commercial state corporations. The change of government funding to block grants has been accompanied by responsibility and financial accountability of state corporations, who have typically responded with more timely, detailed, and accurate financial statement.

The aim of this study was to establish the level of autonomy of commercial state corporations in Kenya, in relation to their financial performance. The population of the study comprised of all commercial state corporations in Kenya, numbering thirty one. The study was descriptive in nature and a census method was used since there are only a few commercial state corporations in Kenya. Descriptive survey design was preferred because it enables the researcher to describe the area of research and explain the collected data in order to properly investigate the differences and similarities. The research instrument used to collect primary data were questionnaires through the drop and pick method.

The response rate was 77% that is a total of 24 out 31 respondents obliged to the research-questionnaires. Overall it was found that autonomy increases public accountability and consumer satisfaction. Many respondents felt that autonomous state corporations, vested with greater, authority were in a better position to respond to local community needs. They also felt that autonomy is likely to lead to improvements in the quality of life for its citizens, and that greater autonomy when accompanied by appropriate incentives, consumer responsiveness, and public accountability would lead to optimal financial performance.

The findings indicated that most respondents felt that autonomy of state corporations was influenced to a large extent by political interference on its business undertakings, and still to a very high extent as compared to when there was full control by the government.

The research was summarized from the findings that a widely used government control on corporation, is government ownership as well as resource decisions whereby the government makes decisions on hiring and firing of senior managers of these commercial state corporations.

This study has revealed the effect of autonomy of financial performance in commercial state corporations in Kenya. It has investigated the level of autonomy of commercial state corporations in Kenya. It has investigated the level of autonomy of commercial state corporations which identified explanatory variables which lead to the explained variance in the dependent variable, the financial performance. The data collected was presented using descriptive statistics and analyzed using multivariate regressions.

In the light of the research findings, the researcher recommends; what needs to be done to improve the corporations financial performance with regards to autonomy from the government. The government should give the corporations the leeway to make decisions on investment and expansion as well as implementing day – to- day business activities. On the other hand the government should provide clear information and performance feedback, increase incentives and motivations among corporation employees. Again, the government should propose strategic direction, leadership, capacity building, reorganization and restructuring of commercial state corporations.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background to the Study

Autonomy is an element of the structure of an organization. It is related to the division of the decision making authority between a local unit and an outside organization that controls it. However, neither the structure nor the separation, hence the autonomy is an end in itself. They are simply instruments that allow the organization to mobilize its resources to solve its various problems in the best possible way and thus to reach the objectives it has set for itself. These objectives are many but, at a high level of generalization, they can be grouped into two basic elements: the maximization of profits; and the minimization of financial risk (Garnier, 1982).

Agentification and the creation of quasi-autonomous public bodies have been prominent on the reform agenda in numerous OECD countries and the consequences of giving more autonomy to public organizations (sometimes called autonomization) on the performance of such organization has become quite a popular research topic, going back to the 1980s. But several questions arise when we examine this terminology. Do Scholars mean the same thing when they refer to autonomy (as independence or discretion) of public organizations? Are the inconclusive results of the reviewed research on autonomy partly a function of different conceptualizations, operationalizations and measurements of autonomy by the involved researchers (Verhoest; Peters; Bouckaert and Verscheure,

2004). The influence of organizational autonomy on financial performance in public organizations uses a diverse and a too restrictive conceptualization of autonomy. The popularity of the autonomy concept stems from evolutions in the practice of public management. These evolutions can be linked to theoretical schools which predict certain effects when certain tasks are put at arm's length from the government.

Autonomy is the quality of state of being self-governing, especially, the right or power of self-government, existing or capable of existing independently, and, subject to its laws only. In other words, the issue is one of "degree of autonomy rather than an absolute autonomous state" (Austin, 1984). Nor is this issue merely one of semantics. Since the 1980's, the public sectors around the world have come under intense scrutiny in policy circles due to the bureaucratic complexity of these institutions, the heavy burden they impose on public funds, and the perceived difficulties in ensuring their efficient and effective functioning under centralized government control. One policy option that has found particular favor with governments is granting greater autonomy to these state corporations in running their operation. As a result, autonomy initiatives have been proposed as an integral part of broader public sector reform process (Govindaraj and Chawla, 1996).

Governments must implement the necessary institutional arrangements required to enhance public sector financial management transparency and accountability. An integral and essential part of these arrangements is the use of accrual-based accounting; through the adoption and implementation of International Public Sector Accounting (IPASs)

which promotes greater transparency and accountability in public sector finance and allows for enhanced monitoring of government debt and liabilities for their true economic implications. Part of the process of recent public sector reform has involved replacing traditional cash-based accounting, similar to those found in the private sector (Hodges and Mellett, 2003).

Autonomy is also conjectured to increase public accountability and consumer satisfaction. The argument is that autonomous state, corporations, vested with greater authority, can be expected to be better able to respond to local community needs. This, in turn is expected to increase public support and acceptance, and greater community participation in state corporations decision-making. Moreover, the delegation of authority, it is reasoned, “may be accompanied by a matching system of control and supervision to ensure the responsible use of authority” thereby leading to improvements in service provision (Chawla and Berman, 1995).

The Kenyan government continued its policy of fiscal prudence and discipline in the management of public sector finance to further strengthen its financial position as well as to complement its tight monetary policy to further contain excessive demand and moderate price pressures in the economy. The government’s financial management therefore continues to focus on strengthening the revenue base and promoting savings to sustain future levels of investments and growth. Towards this end, efforts at restructuring the tax system was further continued in the 1994 budget with a view to creating a more conducive environment for private sector initiatives and investment while tax relief’s

were also given to reduce the burden of the low income group as well as further reduction and abolition of import duties to dampen price increases (Likerman, 2000).

The need for accrual-based public sector accounting is recognized by many governments that already prepare financial statements on an accrual basis around the world. The need is also explicitly recognized by the European parliament, in its report on the proposal for a council directive on requirements for budgetary frameworks of the member states, in May 2011, included in its draft legislative resolution that “member states shall have in place public accounting systems, applying the accrual basis of accounting and comprehensively and consistently covering all sub-sectors of general government as defined by Regulation (EC) No. 2223/96 (ESA 95)”. Those systems shall be subject to autonomy or independent control and audit (IFAC Policy 4, 2012).

### **1.1.1 Autonomy of State Corporations**

International Federation of Accountants (2012) is of the view that governments around the world must implement the necessary institutional arrangements to protect the public as well as investors. It is critical that governments work to establish greater trust between themselves and their constituents. The fact that extensive commercial activities of modern governments are so frequently carried on beyond their borders by government owned corporations has resulted in an ever expanding reliance upon sovereign immunity.

Given that accounting rules are incorrigible; the choice of rule will determine those aspects that are given attention. Initially, rules deemed appropriate to implementing a

particular metaphor will be introduced, with the government's desire to involve the private sector in the provision of previously state-based activity; the metaphor is that the public sector should become more like the private sector in its mode of management. This leads on to a perspective that its methods of financial performance measurement should be autonomous. The notion of autonomy is broad and permissive of various interpretations, defining them as teams in which the members are given the latitude to jointly decide how their work is to be done. In the organizational behavior literature, Hackman (1987) writes that team members are motivated when "the task provides group members with substantial autonomy for deciding about how they will do the work-in effect, the group 'owns' the task and is responsible for the work outcomes."

In the economics literature, Aghion and Tirole (1997) prefer the term "authority" to "autonomy" but their notion is also based on control over tasks or decisions about how the work is to be done. They treat authority as the right to select actions (tasks that the worker performs on the job) affecting part or control that accompanies autonomous teams, as opposed to closely-managed or non-autonomous teams, flattens the organizational structure by reassigning decision rights to lower tiers of the hierarchy.

There seems to be a consensus among a wide spectrum of experts that many State corporations functioning inefficiently, both in terms of technical and allocative efficiency. It has often been suggested that the government's involvement in the provision of services has been the major contributory factor to the inefficiencies. And thus a movement away from the centralized decision making and provision of services by



the public sector has been recommended (World Bank, 1993). The decision to grant autonomy is associated with costs and benefits.

### **1.1.2 Financial Performance**

Financial performance can be defined as economic performance as measured by a host of financial indicators. Public financial performance management is defined by the Chartered Institute of Public Finance and Accountancy (CIPFA) as “the system by which financial management resources are planned, directed and controlled to enable and influence the efficient and effective delivery of public service goals. CIPFA describes public financial performance management in terms of a “whole system approach”. IFAC supports a whole system approach to public sector financial management, and recognizes the critical importance of the foundations of the system, stakeholder consultation, the demand for services and projects, and governance, which alone with the key process elements, aims to deliver public, community, and individual values as part of the overall objective to deliver sustainable social benefit (Becker and Olson, 2003).

Managers in public sector entities are faced with conflicting signals as a consequence of the accounting techniques and practices. The adoption of accrual accounting should encourage a long-term view of resource management than cash-based systems. However, entities that recognize provisions for liabilities may not be allowed to pass on these costs or, if the costs are included in price structures, they may be unable to retain the cash generated to pay for the liability. In contrast, future financial performance will include PFI payments as elements of the cost of service delivery; the commitments having been

established many years earlier even though no liability has been recognized in the balance sheet (Machin and Stewart, 1996).

### **1.1.3 Determinants of Financial Performance**

Machin and Stewart (1996) argue that use of financial performance could still be justified on the grounds that it reflects what managers actually consider to be financial performance and, even if this is a mixture of various indicators like accounting profits, productivity, and cash flow. Financial performance is determined by the following indicators; profit or value added; sales, fees, budget; costs or expenditure and stock market indicators (e.g. share price) and autonomy.

### **1.1.4 Relationship between Financial Performance and Autonomy**

Too little intervention can sometimes have more severe consequences for financial performance than too much interference. In particular, autonomy without proper accountability can lead to managerial abuse of the system. At the same time, every intervention involves an investment of time and resources. It is important that this investment be justified in terms of the benefits accruing to financial performance. If a government is unsure of the benefits of the intervention, or lack the ability to make this determination, it is better off restraining from intervention. Under these circumstances, it might be desirable to let the commercial state corporations managers deal with the issue, or better still, to make a joint decision (McPake, 1996).

While autonomy has made the process of financial accountability more transparent in most countries, it has had little effect on public accountability for the nature and quality of services provided by commercial state corporations. The change of government funding to block grants has been accompanied by responsibility and financial accountability of state corporations, who have typically responded with more timely, detailed, and accurate financial statement (Collins; Njeru and Meme 1996).

### **1.1.5 State Corporations in Kenya**

The Kenya government forms state corporations to meet both commercial and social goals. State corporations exist for various reasons including: to correct market failure, to exploit social and political objectives, provide education, health, redistribute income or develop marginal areas. At independence in 1963, parastatals were retooled by Sessional Paper No. 10 of 1965 into vehicles for the indigenization of the economy. Thus majority of key parastatals that exist today were established in the 1960's and 1970's. By 1995 there were 240 parastatals. The main economic activities of parastatals are as follows; economic activity 60%, manufacturing and mining 10%, finance 15%, and transport, distribution, electricity and other services 15% (Sessional Paper No. 10, 1965).

The core functions of the corporations are; promoting fair trade practices and protecting consumers, promoting innovation and enforcing intellectual property rights; promoting industrial development, research and appropriate technologies; creating an enabling environment for sustainable trade, tourism, investment and employment creation; formulating, reviewing coordinating and implementing policies and programmes geared

towards effective human resources development and utilization; wildlife conservation and management; development, promotion and diversification of products and services geared towards making Kenya a destination of choice for trade, tourism, and investment and sports activities; empower marginalized groups to participate fully in national and international standards; preservation and development of diverse cultures into a national culture; rehabilitating and promoting training institutions and youth friendly resources centres, enhancing programmes for National Youth Service (NYS); implementing various Acts of Parliament addressing issues on the youth, person with disabilities, gender, labour and settle trade disputes.

### **1.1.6 Commercial State Corporations in Kenya**

These are government parastatals that directly generate income, and can therefore independently manage their financial obligations. Where government services may be managed as commercial operations, the State-owned Enterprises Act allows the government to provide these services through a similar organizational form as private sector enterprises. Four main Acts govern the public sector financial management system; the State Sector Act 1988 include definitions of the roles of chief executives of government departments, and gives them the authority to manage their departments; the Public Finance Act 1989 governs the use of public money; the state-owned Enterprises Act 1986 allows government to conduct some of its commercial activities like private sector businesses, and the Fiscal Responsibility Act 1994 charge government with declaring its short and long term financial intentions.

Many reasons why the impacts of these state corporations have been negative include; (1) Politicization and poor corporate governance, boards of parastatals are appointed by political power (the president and the minister) as are the chief executives. Thus many operational decisions are not necessarily non partisan; (2) weak supervisory mechanism The role of the state corporation advisory committee is just advisory yet it could play a more powerful as a monitor and evaluator performance; (3) the structure of financing and financial management; many state corporations are allocated funds through line ministries thus end up being chronically under funded. They are allowed to borrow funds but many not repay their loans. Expenditure controls are weak; (4) prosecution of chief executives for abuse of office and misappropriation of funds is usually not carried out (Economic Survey, 2011).

## **1.2 Statement of the Problem**

Financial performance by organizations is seen as the most important activity for a firm's survival. Measuring the results of a firm's policies and operations in monetary terms as reflected in the firm's return on investment, return on assets and value added among others is important without which firms will be operating in the dark and this can lead to mismanagement of resources. It is necessary therefore for state corporations to assume a more diverse role as a result of autonomy to improve on their operating management, decision making, market responsibility and profit sharing incentives at the corporation level. At the same time maintain the needs of government agencies for financial performance criteria related to economic planning and control at the regional and national levels (Macedo, 2000).

State corporations have no options but to embrace modern business management practices to ensure an effective and efficient financial performance (Machin and Stewart, 1996). It is, however, generally argued that state corporations' management is plagued by political interference; they have not been autonomous in their operations and decision making which in most cases has led to increased mismanagement of resources, levels of corruption and nepotism among others. Most of the arguments support the notion that political control in enterprise decision making is detrimental to performance relying on the assumption that politicians maximize social goals. It is assumed that politicians use state corporations to correct market failures such as natural monopolies and externalities (Vickers and Yarrow 1989, Shleifer and Vishny 1994 and Shleifer 1998). As a consequence, recurrent theme in most government decisions on giving autonomy to state corporations is the expectation that autonomy would enable the state corporation to mobilize revenue and lessen the budgetary pressure on governments (Collins *et al.*, 1996).

Parastatals are deeply implicated in most fiscal problems of African governments because of their inefficiency, losses, budgetary burdens, and provision of poor products and services. Occasionally, they achieve some non-commercial objectives, which are used to justify their poor economic performance (Louw, 1999). In Kenya, parastatals consume large portions of scarce national resources and do not always use them effectively or efficiently. With over 160 State Corporations, more than 50% receive direct exchequer funding for either all their expenditure or are subsidized to a very large extent with funding that averages 30% of Development and Recurrent national budget (State

Corporations Advisory Committee (SCAC), 2009). Faced with difficulties in funding parastatals, Kenyan government have granted greater autonomy to some parastatals to facilitate management improvements, increased revenue generation, and/or reduced cost. According to SCAC (2009), giving state corporations autonomy enhances their efficiency; reduce the financial burden on the public sector budget and enable them to operate on the basis of market principles, promoting operational autonomy, and enhancing accountability.

Several studies have been conducted in the field of financial performance, such as Shitakwa (2008), undertook a study of the relationship between performance contracting and performance of state owned corporations. Murithi (2008) also did a research on corporate governance and the financial performance of state corporations. Muysoki (2007) studied the relationship between quality improvement and financial performance for commercial banks. Among all these studies conducted no one has addressed autonomy and the effect of financial performance on commercial state corporations in Kenya. Therefore the study will seek to address public sector autonomy and its effect on financial performance of commercial state corporations in Kenya as the knowledge gap necessitating this research study. The study will, thus, answer the question: what are the effects of autonomy on the financial performance of State Corporation in Kenya?

### **1.3 Objectives of the Study**

- i. To establish the level of autonomy of commercial state corporations in Kenya;
- and

- ii. To establish the relationship between financial performance and autonomy in commercial state corporations in Kenya.

#### **1.4 Value of the Study**

This study will be useful in a number of ways in particular, the study;

Will assist academicians and scholars interested in the financial performance and management of state corporations, and organizations in general. Especially the autonomy of state corporations from the main arm of the government. Will assist the commercial state corporations and the public sector management in the formulation of policies, standards guidance and procedures of undertaking financial performance and management. Will add onto the foundation that is being laid in research on issues of public sector autonomy of state corporations and government parastatals in the developing countries. Will also act as a resource for the government in understanding the need for state corporations to be left to operate independently or autonomously in managing their financial operations and activities. Will provide an insight into the challenges and benefits of public sector autonomy in the financial performance and management of their own resources, as compared to when the government interferes to control the financial operations and activities of these state corporations and parastatals.



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter discusses essential issues that form the background of the study. It is organized systematically starting from the theoretical literature to the conceptual framework of the study. This chapter reviews literature in the following pertinent issues; the financial performance measures in autonomous commercial state corporations in Kenya, the relationship between financial performance and autonomy, and the benefits.

#### **2.2 Theoretical Literature**

Measuring finance performance in relation to autonomous activities and operations is a challenging problem in both private and public sector. In the old economy, where the central feature was mass production and consumption of commodities “output” or “quantity” measures were adequate indicator of financial performance. Modern economies are based on production and consumption of increasingly differentiated goods and services. In the case of Public Sector-Corporations, this increased variety leads to the fragmentation and changing nature of the state corporations services. In this environment, traditional productivity measures are not only extremely difficult to compute, but they also tell us less than they used to discuss these issues of the national and firm level (Fornell, 1995).

Financial performance of an institution observable but non-actionable can be affected by its performance along the axis of service delivery and financial intermediation. The financial performance along both of those axis is both observable and actionable. We turn our attention to financial performance along the axis of service delivery, and attempt to unbundled those factors that drive financial performance in the delivery of state corporations services (Hodges and Mellett, 2003).

### **2.2.1 Agency Theory**

It is an acknowledged fact that the principal-agent theory is generally considered the starting point for any debate on the issue of corporate governance emanating from the classical thesis on *The Modern Corporation and Private Property* by (Berle and Means, 1932). According to this thesis, the fundamental agency problem in modern firms is primarily due to the separation between shareholders and management. Modern firms are seen to suffer from separation of ownership and control and therefore are run by professional managers (agents) who cannot be held accountable by dispersed shareholders. In this regard, the fundamental question is how to ensure that managers follow the interests of shareholders in order to reduce costs associated with principal-agency theory? The principals are confronted with two main problems. Apart from facing an adverse selection problem in that they are faced with selecting the most capable managers, they are also confronted with a moral hazard problem; they must give agents (managers) the right incentives to make decisions aligned with shareholder interests.

Jensen & Meckling (1976) describe agency relationship as a contract under which “one or more persons (principal) engage another person (agent) to perform some service on their behalf, which involves delegating some decision-making authority to the agent”. In this scenario, there exists a conflict of interests between managers or controlling shareholders, and outside or minority shareholders leading to the tendency that the former may extract “perquisites” (or perks) out of a firm’s resources and be less interested to pursue new profitable ventures. Agency costs include monitoring expenditures by the principal such as auditing, budgeting, control and compensation systems, bonding expenditures by the agent and residual loss due to divergence of interests between the principal and the agent. The share price that shareholders (principal) pay reflects such agency costs. To increase firm value, one must therefore reduce agency costs. The following are the key issues towards addressing opportunistic behavior from managers within the agency theory: Composition of board of directors; the board of directors is expected to be made up of more non-executive directors (NEDs) for effective control. It is argued that this reduces conflict of interest and ensures a board’s independence in monitoring and passing fair and unbiased judgment on management. CEO duality meaning that it is also expected that different individuals occupy the positions of CEO and board chairperson as this reduces the concentration of power in one individual and thus greatly reduces undue influence of particular management and board members.

### **2.2.2 Stakeholder Theory**

It has previously been suggested by scholars that stakeholders theory holds the potential for understanding the financial performance–autonomy relationship stakeholder theorists

argue that the organization's FP is determined by their stakeholders' provision of resources in response to the organization's actions (Fooman, 1999). A stakeholder's decision to either provide or cease to provide resources to the organization is the culmination of complex considerations that coalesce within an overall evaluation of the organization's reputation. Stakeholders are uniquely positioned to affect the FP of the organization whether through withholding or providing efforts (e.g. employees), infrastructure (e.g. government or cash flow (e.g. customers), among other things Rowley and Berman, 2000).

Jones & Wicks, (1999) critique the Stakeholders theory for assuming a single-valued objective (gains that accrue to a firm's constituencies). The argument of (Valdes, 1997) suggests that the performance of a firm is not and should not be measured only by gains to its stakeholders. Other key issues such as flow of information from senior management to lower ranks, inter-personal relations, working environment, etc are all critical issues that should be considered. Some of these other issues provided a platform for other arguments as discussed later. An extension of the theory called an enlightened stakeholder theory was proposed. However, problems relating to empirical testing of the extension have limited its relevance (Jones & Wicks, 1999).

### **2.2.3 Resource Dependency Theory**

This theory introduces accessibility to resources, in addition to the separation of ownership and control, as a critical dimension to the debate on corporate governance. Again, the theory points out that organization usually tend to reduce the uncertainty of

external influences by ensuring that resources are available for their survival and development. By implication, this theory seems to suggest that the issue of dichotomy between executive and non-executive directors is actually irrelevant. How then does a firm operate efficiently? To resolve this problem, the theory indicates that what is relevant is the firm's presence on the boards of directors of other organizations to establish relationships in order to have access to resources in the form of information which could then be utilized to the firm's advantage. Hence, this theory shows that the strength of a corporate organization lies in the amount of relevant information it has at its disposal.

Corporate boards are responsible for major decisions like changing corporation's Memorandum and Articles of Association, issuing of shares, declaration of dividends, etcetera. This explains to some extent, the reason why discussions on corporate governance usually focus on boards. The board of directors is the "apex" of the controlling system in an organization and is there to monitor the activities of top management to ensure that the interests of shareholders are protected (Jensen, 1993). It acts as the fulcrum between the owners and controllers of the corporation (Jones, 1994) and regarded as the single most important corporate governance mechanism (Lanoo, 1995). The board of directors is the institution to which managers of a company are accountable before the law for the company's activities (Oxford Analytical Ltd, 1992)

### **2.3 Financial Performance Measures in Autonomous Institutions**

Financial performance in an establishment depends on the degree of autonomy or control in an organization. Given that financial performance (interpreted as profit) is one of the broadest measures of organizational financial performance available, virtually any exclusion restriction is open to the critique that it could have some effect on financial performance that operates directly rather than through the channel of production (Aghion and Tirole, 1997). Financial performance measure is interpreted to mean profit or value added. If one is prepared to take the implications of perfect competition and profit maximization to their extremes, then profitability should be telling us roughly the same thing as costs or productivity and possibly even share price.

Financial performance can mean economic performance as measured by a host of financial indicators. Price-to-earnings ratios, the firm's stock beta and Alpha, and Tobin's q-ratios are indicators for short-and long-term financial performance. In particular, Tobin's q- the ratio of market value to replacement cost is a measure of the firm's incentive to invest and thus, is an indicator of its long term financial performance (Boyd, 1991). There is an accumulating body of empirical evidence that quality measures are predictive of future changes in share-holders value.

Financial performance is a subjective measure of how a firm can use assets from its primary mode of business and generate revenues. It is a general measure of a firm's overall financial health over a given period of time and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Austin,

1984). Prior work on the measurement of financial performance is extensive. Perhaps the primary distinction to be made among the many alternative measures is between measurements of accounting and economic profits (Becker and Olson, 1987; Hirsch, 1991). Economic profits represent the net cash flows that accrue to shareholders; these are represented by capital market returns. Accordingly, profits can differ from economic profit as a result of timing issues, adjustments for depreciation, choice of accounting method, and measurement error. Additionally, economic profits are forward looking and reflect an historical perspective. Although there is a widespread agreement in the literature that capital market measures are superior to accounting data, accounting data provide additional relevant information (Hirschey and Wichern, 1984). Each is the best available measure of its type.

Ratio analysis is a powerful tool of financial analysis. A ratio is define as “the indicated quotient of two mathematical expressions and as the relationship between two or more things”. A ratio is used in financial analysis as a benchmark for evaluating the financial position and performance of a firm. The absolute accounting figures reported in the financial statements do not provide a meaningful understanding of the performance and financial position of a firm. Ratios help to summarize large quantities of financial data and to make qualitative judgments about the firm’s financial performance (Pandey, 2010). Hirschey and Wichera (1984) indicate that the limitations of ratio analysis arise from the fact that the methodology is basically univariate that is each ratio is examined in isolation. To overcome these shortcomings of ratio analysis, different ratios should be combined to give a broader perspective with better predictive information.

## 2.4 Indicators of Financial Performance

The measures of financial performance include the firm's annual turnover, the net profits, total assets turnover and earnings per share. Included in these measures of financial performance are ratios as indicated below.

$$\text{Total assets turnover} = \frac{\text{Sales}}{\text{Total Assets}} \dots\dots\dots(1)$$

$$\text{Earnings per share} = = \frac{\text{Pr ofit After tax}}{\text{No.of shares issued}} \dots\dots\dots(2)$$

Source: Pandey 2010

The technical guide of financial performance indicators by Inter- American Development Bank (Washington: D.C., 2001) presents four main categories; portfolio quality, efficiency and productivity, financial management and profitability. While there exists other performance measures, emphasis is placed on the four criteria as the most important. These four criteria.

### 2.4.1 Portfolio Quality

The largest source of risk for any institution resides in its loan portfolio. The loan portfolio is by far a financial institution's largest asset. In addition, the quality of that asset, and therefore, the risk it poses for the institution's can be quite difficult to measure. The most widely used measure of portfolio quality in institutions is portfolio at Risk (PaR) which measures the portion of the loan portfolio contaminated by arrears as a percentage of the total portfolio.



Although various other measures are regularly used, PaR has emerged as the indicator of choice. It is easily understandable, does not understate risk, and is comparable across organizations. In addition to the portfolio risk indicator, other indicators related to portfolio quality and associated risks are write-off ratio, provision expense ratio and risk coverage ratio (Boyd, 1991).

### **2.4.2 Financial Management**

Financial management assures that there is enough liquidity to meet a financial lending institutions obligations to disburse loans to its borrowers and to repay loans to its creditors. Even though financial management is a back office function, decisions in this area can directly affect the bottom line of the institution. The importance of adequate liquidity and hence of financial management, grows further if institution is mobilizing savings from depositors. Financial management can also have decisive impact on profitability through the skill with which liquid funds are invested. Finally, managing foreign exchange risk and matching the maturities of assets and liabilities involve financial management (Pandey, 2010).

### **2.4.3 Efficiency and Productivity**

Efficiency and productivity are performance measures that show how well the institution is streamlining its operations, productivity indicators reflect the amount of output per unit of input while efficiency indicators also take into account the cost of inputs and/or the price of outputs. Since these indicators are not easily manipulated by management, decisions, they are more readily comparable across institutions than, say,

profitability indicators such as return on equity and assets. On the other hand, productivity and efficiency measures are less comprehensive indicators than those of profitability. Productivity and efficiency can be measured by operating expense ratio, cost per borrower ratio, personnel productivity and loan officer productivity (Scheutze, 2001).

#### **2.4.4 Profitability**

Profitability measures such as return on equity and return on assets tend to summarize performance in all areas of the company. If portfolio quality is poor or efficiency is low, this will be reflected in profitability. Because they are an aggregate of so many factors, profitability indicators can be difficult to interpret. The fact that for instance a state corporation has a high return on equity says little about why that is so. All performance indicators tend to be of limited use (in fact, they can be outright misleading) if looked at in isolation and this is particularly the case for profitability indicators. To understand how an organization achieves its profits (or losses), the analysis also has to take into account other indicators that illuminate operational performance of the institution, such as operational efficiency and portfolio quality. Profitability can thus be measured by return on equity, return on assets and portfolio yield (Walkman, 1987).

#### **2.5 Empirical Evidence**

Autonomy is also conjectured to increase public accountability and consumer satisfaction (Collins, Njeru and Meme, 1996). The argument is that autonomous hospitals, vested with greater authority can be expected to be better able to respond to local

community needs. The study of Kenyatta National Hospital (KNH) by Collins et al., (1996), in turn identifies an increase in public support and acceptance, and greater community participation in hospital decision – making. Moreover, the delegation of authority, it is reasoned, “may be accompanied by a matching system of control and supervision to ensure the responsible use of authority”, thereby “leading to improvements in patients satisfaction”. Autonomy is likely to lead to improvements in the quality of care provided by hospitals. Greater autonomy when accompanied by appropriate incentives, consumer responsiveness, and public accountability, would lead to optimal financial performance.

Although studies of performance are found in many research traditions, they share the basic approach of ‘natural experimentation’. Because it is generally infeasible to establish. The experimental controls in studying financial performance, authors typically estimate the impact of a particular factor on performance, using statistical techniques to hold other causal factors constant. Most statistical tests of the effects of individual explanatory variables continue to be against the null hypothesis of “no effect”, even through this null should often be replaced by comparison of results with the work of others in a “compare and contrast” framework (Capon; Farley and Hoenig, 1990).

The relation between the way the public sector is organized and the autonomy of public organizations is a key issue as well. It is crucial to systematically study different strategies, instruments and structural interfaces involved in managing the relationship between Ministers, parent Ministers and State Corporations (Laegreid; Verhoest; and

Jann, 2008). Recently several researcher have focused on the autonomy and control of public sector organizations, especially as regards agencies. In agency studies, 'reational' nature of autonomy is acknowledged. Most New Public Management (NPM) reforms have been preoccupied with questions of vertical coordination and how central government bodies can control subordinates units. The parallel processes of structural devolution and the more comprehensive application of financial performance tools have been popular reform features. It has however, been difficult to find a stable balance between the need for central political control and accountability and the need for local agency autonomy and professional independent (Laegreid et al., 2008).

Garneir (1982) addresses the past two decades establishment of autonomous public bodies, and how these have created a highly fragmented public sector. By focusing on Dutch public organizations, they examine three related questions; to what extent does a relationship exist between formal and de facto autonomy? How much influence do interested parties exert upon public organizations? Does a relationship exist between the levels of formal and de facto autonomy and the level of interest exercised by interested parties? One main finding is that formal autonomy does not reinforce de facto autonomy. Organizations with less autonomy report higher levels of political influence in cases where policy autonomy is concerned, and organizations with more autonomy report higher level of societal influence on their financial autonomy. Capon et al (1990), found many more significant positive than significant negative relationships. Capon et al (1990) suspect a bias operates towards seeking variables related to good financial performance.

However, there is value in theory development and empirical testing involving variables that lead to poor financial performance; not simply those involving how values of positive attribute. This is evidence that a theory of poor financial performance would not simply be a symmetric mirror of a theory seeking to explain good financial performance. Gitari (2008) observed that in Kenya a shift in the way the government controls its public organizations involves policy implementation and services delivery (hence forth called “public agencies”. Control on inputs by the government is reduced, implying more managerial autonomy for the public agency. Gitari (2008), again observes that public services are no longer delivered by strict input controlled and incrementally financed units within monolithic and monopolistic government bureaucracies. Instead they are increasingly provided by public agencies that have considerable managerial autonomy with respect to the use of their inputs.

Kiamba (2008), is of the assumption that the performance of local authorities can be enhanced only if more managerial autonomy (i.e., less input control on financial and human resource matters) is devolved to them by government, and if they are forced by result control, financial incentives, and competition to use autonomy in order to increase their financial performance. He again observed that public managers cannot be trusted to perform in an optimal way unless they are forced to because they serve their private interests, which are not always congruent with those of central government. Therefore information about their financial performance should be available to the government, as well as incentives to align their interests with those of the government.

## 2.6 Summary

Autonomy is distinguished in two kinds; the first one, autonomy as the level of decision – making competencies of the agency (concerning management on the one hand and concerning agency policy on the other hand), and secondly, autonomy as the exemption of constraints on the actual use of decision – making competencies of the agency or corporation (referring to structural, financial legal and interventional constraints on the agency’s decision-making competencies). Here financial autonomy refers to the extent to which the corporation or agency depends on governmental funding or own revenues for its financial resources and the extent to which it is responsible for its own losses (Verhoest; Peters; Bouckaert and Verschere, 2004).

When state corporation managers have little in the way of freedom, independence, or personal discretion (i.e., work processes and decision-making activities are regulated by formal policies and procedures) it is reasonable to expect an emphasis on prescribed in-role activities to the possible exclusion of extra – role acts. On the other hand, roles that provide managers with greater autonomy permit a wider range of in-role and extra – role behaviors (George and Jones, 1997; Morrison, 1994).

In most companies, a good financial performance is the key driver. It is a subjective measure for assessing how well a company performs its daily activities and operations and how it is able to generate revenues. It is an indicator of the general financial health of the company over a given period of time. The link between the concept of autonomous motivation with financial measure is quite important.

# CHAPTER THREE

## RESEARCH METHODOLOGY

### **3.1 Introduction**

This section of the paper discussed the methodology that was used in the study. The sources of information, the types of data to be collected, the method of data collection to be used and the approaches of data analysis to be adopted.

### **3.2 Research Design**

This study was descriptive in nature and a census method will be used since there are a few commercial state corporations. Descriptive survey design according to Kothari (2003) is a powerful form of quantitative analysis. This design was preferred because it enabled the researcher describe the area of research and explain the collected data in order to investigate the differences and similarities with our frame of reference within a given period of time (time of research). In addition, the method permits gathering of data from the respondents in natural settings resulting in a description of the data, whether in words, pictures, charts, or tables. Moreover, much of the data collected from the respondents was quantitative in nature. On the other hand a census is the procedure of systematically acquiring and recording information about the members or items of a given population. This design gave the researcher a comprehensive picture of the variable relationship since the method is the only means of accurately measuring and giving statistical inferences.

### 3.3 Target Population

The population comprised of the entire commercial state corporation. According to Guideline on the Terms and Conditions for State Corporations (2010), there are 31 commercial state corporations in Kenya as presented in Table 3.1. Since the population of the study is not very large, the study was a census and thus the researcher focused on the whole population. This ensured that all elements of the population were targeted and interviewed and as such was highly representative of the Kenyan commercial state corporation. Each corporation produced one respondent making the number of respondents to be 31.

**Table 3.1: Commercial State Corporations in Kenya**

<b>Ministry in Charge of State Corporations</b>	<b>Number of Commercial Corporations</b>
Ministry of Agriculture	7
Ministry of Trade and Industry	3
Ministry of Information & Communications	4
Ministry of Education Science and Technology	4
Ministry of Transport	3
Ministry of Energy	4
Ministry of Health	1
Office of the President (Department of Defence)	1
Ministry of Tourism and World Life	2
Ministry of Lands, Settlement and Housing	1
Ministry of Water and Irrigation	1
<b>Total</b>	<b>31</b>

*Source: Guideline on the Terms and Conditions for State Corporations (2010)*



### **3.4 Data Collection**

The research instrument that was used to collect data in this study was questionnaires. The research period was 5 years starting from 2006 to 2011. Data from this period was sufficient enough to enable logical deductions for this research. At the same time this period has witnessed internal wars between government and officials of many state corporations.

Mugenda and Mugenda, (2003) states that since a questionnaire is a carefully designed instrument, it is good for collecting data directly from the people. This facilitated accuracy of data collected by the researcher. The questionnaire was semi-structured; with both closed-ended questions provided with a list of responses from which to select an appropriate answer and open-ended questions which enabled the study to get detailed information. The study targeted head of finance. The researcher created a rapport with the respondents then personally administered the questionnaire.

#### **3.4.1 Data Validity and Reliability**

To achieve validity and reliability, data was checked for coding errors and omissions while coding into excel sheets. The face, content and construct validity of the research instrument will be evaluated through pilot test. Test re-test analysis was used to establish the reliability of the research instrument; a correlation of 0.6 and above was considered reliable. Then after the pilot study, the questionnaire was verified for accuracy, completeness and all the necessary amendments/corrections made before the actual study.

### 3.5 Data Analysis Procedures

According to Cooper and Schindler (2006), data analysis involves reducing the data into summaries. The data obtained from the structured questions in the questionnaire was coded, classified under different variables and entries made into Statistical Package for Social Science (SPSS version 17). Similarly, responses from unstructured questions on respondents opinion on commercialized state corporation autonomy and financial performance was written in a separate sheet and organized in themes and thematic content analysis used to answer research questions. Descriptive analysis was used to analyze the primary data of quantitative nature (structured questions). Descriptive statistics such as frequencies and percentages and augmented with measures of central tendency (means) and dispersion (standard deviation) will be considered. Additionally, regression analysis was used to determine the relationship between various autonomy indicators and the financial performance of state corporations. The multiple regression analysis will be of the form:

$$FP = \beta_0 + \beta_1GOV + \beta_2OUT + \beta_3SI + \beta_4AMR + \beta_5HR + \beta_6FR + \beta_7PD + \varepsilon$$

Whereby  $\beta_0$  is the models constant and  $\beta_1$  to  $\beta_7$  are the model's coefficients. FP is the corporation's financial performance as provided by the return on assets (ROA); GOV is the government's ownership in percentage and the percentage of shares held by the government as well as the number of board members representing the government; OUT is government's control on output decisions such as pricing and the % of decisions made by governement enacted by state corporations ; SI is government's control on strategic issues such as policy/control formulation and the % of strategic issues made by state

corporation without any government interference; AMR is government's control on acquisition and mobilization of resources as well as the % amount of acquisitions and mobilizations made by the government on behalf of state corporations.; HR is government's control on human resources; FR is government's control on financial resources, the number of employees employed by the government directly to the corporations and % number of employees by the public service commission to state corporations.; PD is government's control on purchasing decisions and the % quantity of purchases ordered in the government on behalf of the state corporation; while,  $\epsilon$  is the error term from the models significance.

T-test is used to test the significance of the difference in performance pre and post autonomy performance of the corporation. These tests is conducted at 95% level of confidence ( $\alpha=0.05$ ).

### 3.5.1 Operationalization of Variables

Variable	Measurement
Financial performance	Return on Assets  % of profit increases before and after autonomy
Government ownership	Percentage of shares held by the government  Number of board members representing the government
Output decisions	Amount of decisions the government makes on behalf corporation  % of decisions made by government enacted by state corporations
Strategic issues	Amount of policies and controls by the government  % of strategic issues made by state corporation without any government interference
Acquisition and mobilization of resources	% amount of acquisitions and mobilizations made by the government on behalf of state corporations.
Human resource	Number of employees employed by the government directly to the corporations
Purchasing Decisions	The extent of influence by the government purchasing decisions

Source: Author (2012)

## **CHAPTER FOUR**

### **DATA ANALYSIS AND PRESENTATION**

#### **4.1 Introduction**

This chapter deals with data analysis and presentation of the findings. It covers background information on the study topic such as response rate, duration of operations, ownership structure and the influence of autonomy on service delivery. Other areas captured include autonomy of the enterprise, autonomy and financial performance and regression results.

#### **4.2 Background Information**

##### **4.2.1 Response Rate**

The study utilized primary data gathered from the questionnaires dropped and picked by the research. The questionnaires targeted head of finance at commercial state corporations. A total of 24 out of 31 questionnaires were completed and returned. This represents 77% response rate which can be used to draw conclusions.

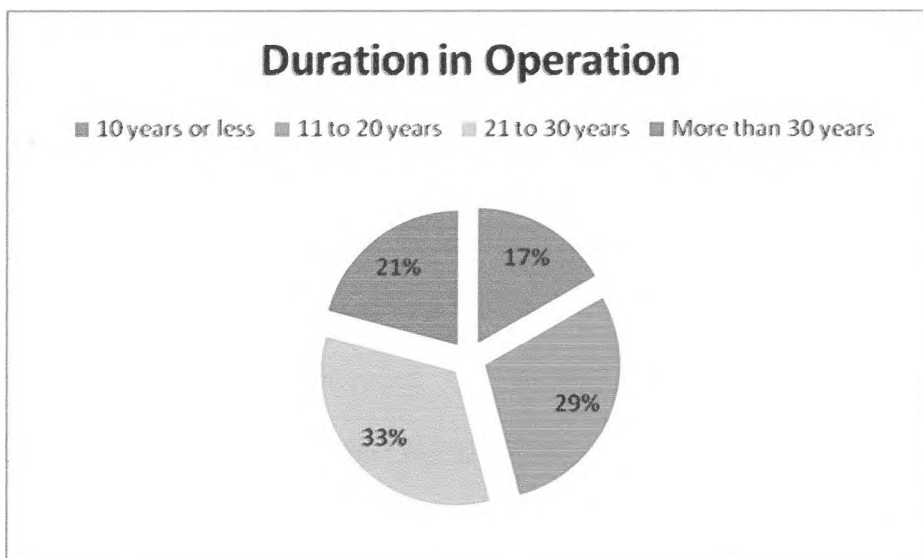
##### **4.2.2 Duration in Operation**

The study also sought to establish the duration in which the corporations had been in operation. The findings indicate that 4 corporations had been in operation for a duration of 10 years or less, 7 corporations had been in operation for a period of 11 to 20 years while those which had been in operation for a period of 21-30 years were 8. On the other

hand corporations which had been in operation for a period of more than 30 years were 5.

The figure 4.1 below illustrates these facts.

**Figure 4.1 Duration in Operation**



**Source: Author (2012)**

From the findings it can be deduced that the longer the period in operation the better the operations in autonomous corporations. The study also established the duration in which the corporations had been in autonomy. The study findings indicate that 21% or 5 of the corporations had been in autonomy since they were commenced while 37% or 9 of the respondents had been in autonomy for a duration of less than 5 years.

4 or 17% of the respondents or corporations had been in autonomy for a duration of 6-10 years. On the other hand 6 or 25% of the corporations had been in autonomy for a duration of more than 10 years. The study sought to find out the reasons why the state granted the corporations autonomy. The reasons given by the respondents include: Promoting fair trade practices and protecting consumers; promoting innovation and



enforcing intellectual property rights; promoting industrial development, research and appropriate technologies; creating an enabling environment for sustainable trade, tourism, investment and employment creation. Others are formulating, reviewing, coordinating and implementing policies and programmes geared towards effective human resource development and utilization; wildlife conservation and management.

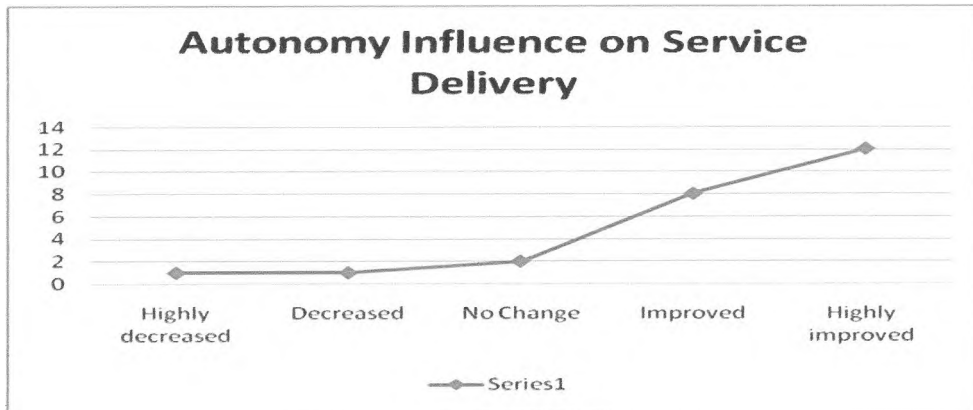
The other reasons given include development, promotion and diversification of products and services geared towards making Kenya a destination of choice for trade, tourism, and investment and sports activities. On other hand some corporations were granted autonomy so as to empower marginalized groups to participate fully in national development; research and development of new products and services; regulate and standardize products and services to ensure compliance with national and international standards. In addition to this other reasons were preservation and development of diverse cultures into a national culture; rehabilitating and promoting training institutions and youth friendly resource centers.

### **4.2.3 Autonomy Influence on Corporation Service Delivery**

The study also sought to establish the influence of autonomy of corporation on service delivery. The findings indicate that 12 or 50% of the respondents feel that service delivery has highly improved as a result of autonomy, 8 or 34% of the respondents or corporations have had their service delivery improved. On the other hand though 2 or 8% of the respondents felt that autonomy of their corporation has had no change in terms of service delivery. 1 or 4% respondent apiece felt that autonomy of corporations has

decreased and highly decreased service delivery. These facts are best illustrated in the figure 4.2 below:

**Figure 4.2 Autonomy Influence on Corporation Service Deliver**



**Source: Author (2012)**

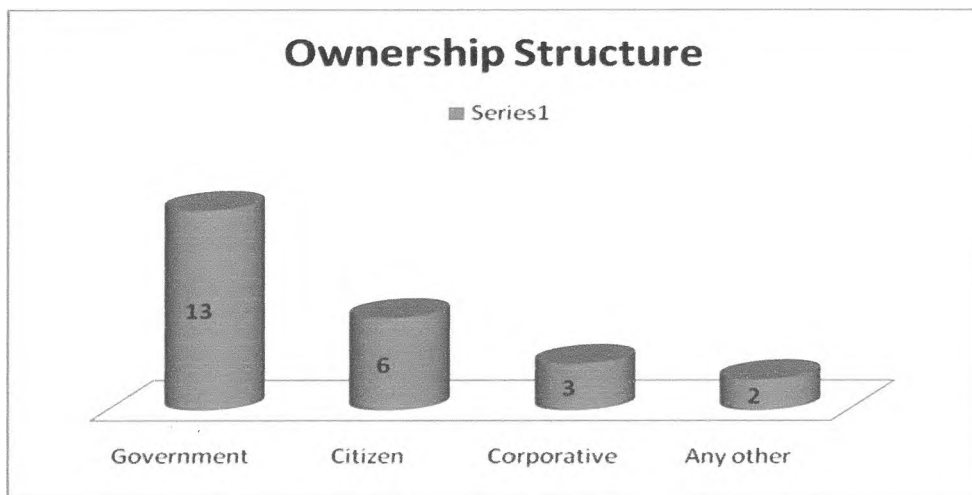
From the findings its clear that autonomy of the corporation has highly improved service delivery. Autonomy of corporations is therefore a relevant concept by states to improve on services delivery and performance of different functions. The study sought to establish whether the corporations have competitors. The findings indicated that more 70% of the corporations had competitors in their areas of operations. Of the corporations which had competitors, 42% had a competition which was below the competitors, 25% of those corporations could compete at the same level as the competitors while 33% of them were more competitive than their competitors and were above the competitors in relation to competition.



#### 4.2.4 Ownership Structure

The study also tried establish ownership structure of the corporations. The findings indicate that 13 or 54% of the corporations were owned and controlled by the government,6 or 25% were owned by citizens through shareholdings, 3 or 13% were owned by corporative while 2 or 8% were owned by other institutions. Figure 4.3 below illustrates ownership structure.

**Figure 4.3 Ownership Structure**



**Source: Author (2012)**

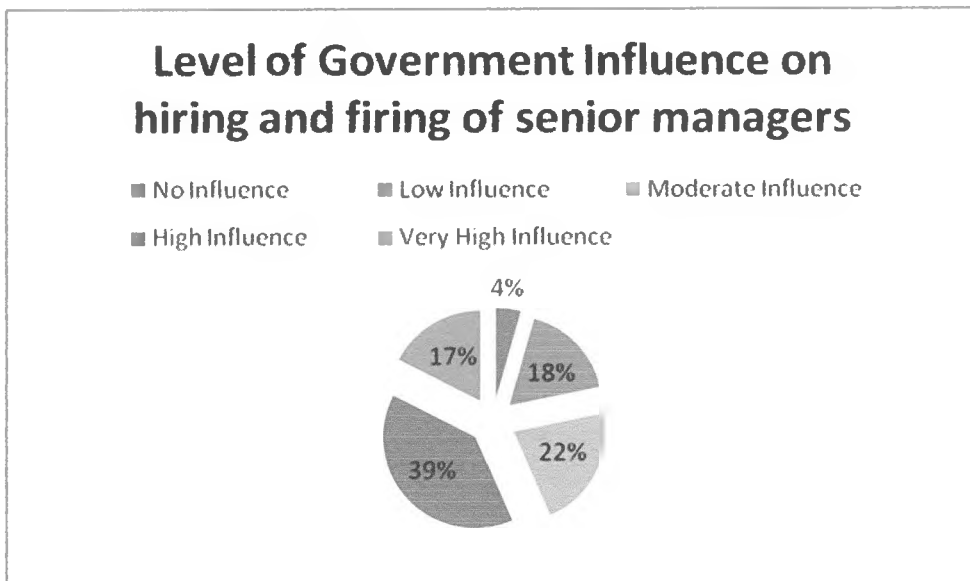
The findings indicate most of the corporations are owned by the government.

#### 4.3 Autonomy of the Enterprise

The study sought to establish the level of influence that the government had in hiring and firing senior managers. From the findings it is clear that the government had high influence when hiring and firing senior managers of corporations at 9 respondents or 38%. 5 or 22% of respondents feel the government has moderate influence on hiring and

firing of senior managers while 4 respondents apiece feel that the government has low influence and very high influence on hiring and firing of senior managers respectively. The figure 4.4 below illustrates the level of government influence on hiring and firing of senior managers.

**Figure 4.4 Level of Government Influence on hiring and firing of senior managers**

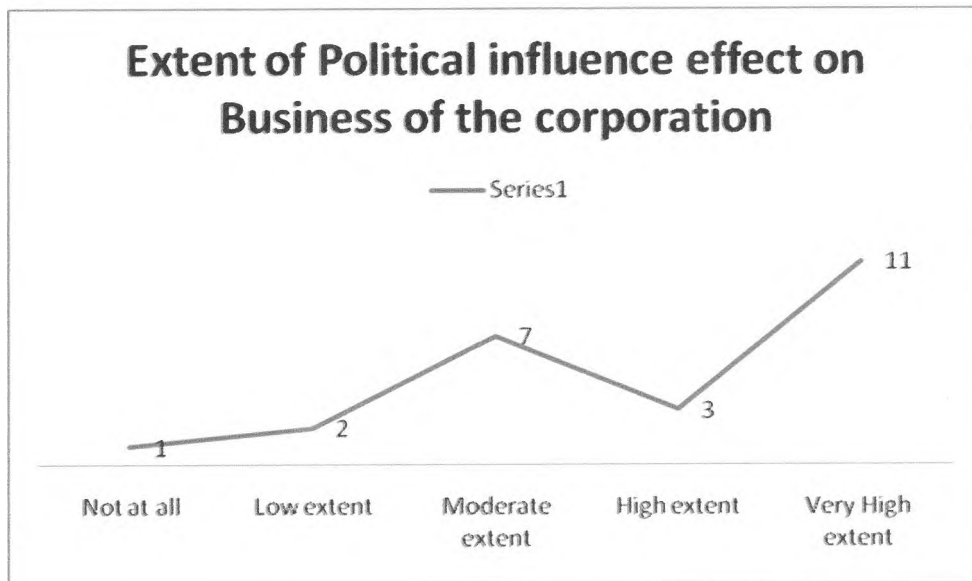


The findings indicate as much as the corporations are in autonomy the government still has influence on the hiring and firing of senior managers.

The study also sought to establish the extent of political influence on the business of the corporation. The findings indicate that 11 or 46% of the respondents feel that political influence affects the business of the corporation to high extent while 7 or 29% felt that political influence affects the business of the corporation to a moderate extent. On the other hand 3 or 13% of the respondents feel that political influence affects the business of

the corporation to a very high extent this is as opposed to 2 or 8% of respondents who feel that political influence affects the business operation of the corporation to a low extent. The figure 4.4 below best illustrates these facts.

**Figure 4.5 Extent of Political influence effect on Business of the corporation**



The findings indicate that most respondents feel with the autonomy of corporations the extent of political influence effect on business of the corporation is still to a very high extent as compared to when there was full control by the government. The study also did seek the opinion of the respondents in relation to the service charter that established the corporation and whether they have any loopholes that political factors can interfere with corporation operations. Majority of the respondents 21 or 88% stated that yes the service charter has loopholes that are interfered with by political factors to suit some individuals. The study sought to establish the sources of the corporation's funds/finances for their

operational expenditure, capital expenditure and expansion functions. The findings indicate that most corporations' funds for operational expenditure was from sales products and services while capital expenditure of the corporations' was from the Government while funds for expansion of the corporations were from credit facilities. The table 4.2 below illustrates these facts.

**Table 4.2 Sources of corporations' funds**

	<b>Government</b>	<b>Sales</b>	<b>Credit Facilities</b>	<b>Grants</b>
<b>Operational expenditure (No. state of corporations)</b>	10	14	4	3
<b>Capital expenditure (No. state of corporations)</b>	19	16	1	13
<b>Expansion (No. state of corporations)</b>	13	12	15	11

The findings indicate corporations depend on the government for funds even though they are autonomy. The findings also sought to establish whether the government subsidizes the amount that the corporation charges its customers. The findings indicate that 21% or 5 respondents stated that yes the government subsidized the amount that the corporation charges its customers while 79% or 19 respondents stated that the government did not subsidize the amount that the corporation charges its customers. Those respondents who responded that the government did not subsidize the amount that the corporation charges its customers 21% or 4 of the respondents stated their corporation offered its services at a

rate that was below the market rate, 9 or 47% of the respondents stated that their services offer was at the same market rate while 6 or 32% of the respondents stated that their organization offered their services at a rate which was above market rate.

The study was also interested in finding out the rate of intensity of the governments' control among corporations. The findings indicate that the majority of the respondents 10 in number feel that the intensity of government's control was to a very high extent in relation to the control on human resources/hiring and firing of members of staff, while 14 feel that the intensity of government's control was to high extent in relation to control of financial resources. On the other hand 14 respondents feel that the intensity of government's control was to a moderate extent on issues to do with control on purchasing decisions. Table 4.3 below best illustrates the facts.

**Table 4.3 Intensity of Government Control**

	<b>1-not all</b>	<b>2-low extent</b>	<b>3-moderate extent</b>	<b>4-high extent</b>	<b>5-very high extent</b>
<b>Control on Human Resources/Hiring and firing of members of staff</b>	1	4	4	5	10
<b>Control on Financial Resources</b>	1	1	5	14	3
<b>Control on Purchasing Decisions</b>	1	2	14	5	2
<b>Control on Strategic issues(Policy/control formulation)</b>	2	2	5	13	3
<b>Control on Acquisition and Mobilization of Resources</b>	3	1	2	12	6
<b>Control on Output Decisions(Pricing decisions)</b>	1	2	10	8	3
<b>Remuneration and allowance</b>	2	2	6	11	4

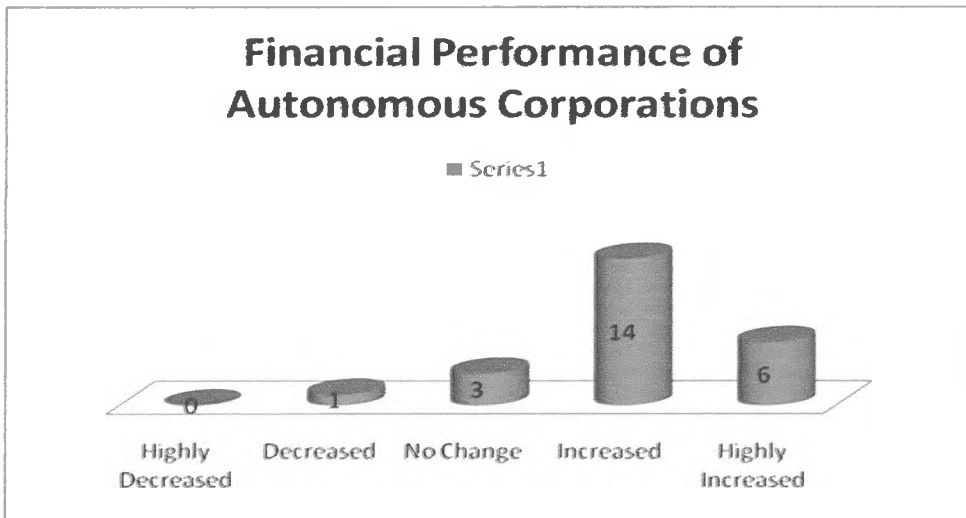
The findings indicate that as much as corporation are autonomy the government still has some level of control on almost all the functions of the corporation. From the findings the following were the ways the respondents stated the profits made by the corporation were used. Two respondents stated that profits made by the corporation were used to form part of the governments' revenues, 12 respondents stated that the profits made by the corporations were paid as dividends or bonus while 16 of the respondents stated that profits made were retained in the corporations' reserves. Other respondents 3 in number stated that the profits made by the corporations were used for expansion and other related functions.

#### **4.4 Autonomy and Financial Performance**

The study sought to establish the relationship between autonomy and financial performance by trying to understand whether the corporations can act on some issues without ministerial, departmental or regulator influence. The findings indicate that 3 respondents stated that their corporation can take out loans without ministerial, departmental or regulator influence, 10 stated that their corporations could set charges for services while 8 respondents stated that their corporations could shift budget allocations between personnel and running costs without regulator influence. On the other hand 2 respondents each stated that their corporations could shift budget allocations between years and establish subsidiary companies regulator influence.

The findings sought the opinion of the respondents on financial performance of the autonomous corporation. The findings indicate that 3 or 13% of the respondents feel that financial performance of the corporations after its autonomy did not change, 1 or 4% feel that their corporations financial performance decreased after its autonomy. On the other hand 6 or 25% of the respondents feel that their corporations' financial performance highly increased after its autonomy while 14 or 58% feel that their corporations' financial performance was increased. Figure 4.5 below illustrates this.

**Figure 4.6 Financial Performance of Autonomous Corporations**



**Source: Author (2012)**

From the findings it can be deduced that autonomy of corporations has led to increased financial performance. From the findings the respondents stated the following as what needs to be done to improve the corporation's financial performance with regards to autonomy from the government: the government should give the corporations the leeway to make decisions on investment and expansion as well as implementing day to day functions. On the other hand the government should enable clear information and performance feedback, increase incentives and motivations among corporation employees. Equally the government should propose strategic direction, leadership, capacity building and organizational audits in addition to team building, reorganization and restructuring of corporations.



## 4.5 Regression Results

Using STATA, following regression analysis was estimated.

$$FP = \beta_0 + \beta_1 GOV + \beta_2 OUT + \beta_3 SI + \beta_4 AMR + \beta_5 HR + \beta_6 FR + \beta_7 PD + \varepsilon$$

The fitted regression model is presented as follows:

$$FP = 8.357221(0.01581) - 1.001357(0.01412) GOV + 11.81009(0.01347) OUT + 0.604081(0.01133) SI + 6.008178(0.00210) AMR - 3.314664(0.0025) HR + 5.30127(0.0245) FR + 6.411554(0.0135) PD$$

FP is the corporation's financial performance as provided by the return on assets (ROA); GOV is the government's ownership in percentage and the percentage of shares held by the government as well as the number of board members representing the government; OUT is government's control on output decisions such as pricing and the % of decisions made by government enacted by state corporations; SI is government's control on strategic issues such as policy/control formulation and the % of strategic issues made by state corporation without any government interference. On the other hand AMR is government's control on acquisition and mobilization of resources as well as the % amount of acquisitions and mobilizations made by the government on behalf of state corporations.; HR is government's control on human resources; FR is government's control on financial resources, the number of employees employed by the government directly to the corporations and % number of employees by the public service commission to state corporations.; PD is government's control on purchasing decisions and the % quantity of purchases ordered in the government on behalf of the state corporation.

The coefficients *FP*-values are given in the parenthesis. In all the estimated model coefficients, the *FP*-values were less than .05 (i.e.  $0.5 > FP$ ) implying that the variables tested significantly influence the financial performance of the corporation at 5% significance level. Also since the coefficient for Government ownership (GOV) and Human resources (HR) are negative, this means that GOV and HR negatively relates to the financial performance of the corporations i.e. the higher the GOV and HR, the lower the financial performance of the corporation and vice versa. The fitted model was diagnosed and found that the regression was statistically significant at 5% significance level (regression *FP*-value =  $.05 > .024415$ ). This shows that the combination of these factors (explanatory variables) significantly affect the response variable (financial performance of corporations). Further, *FP*-square = 62.434%, implying that the explanatory variables accounted for 62.434% of the response variable.

All together the effects of explanatory variables captured in the model are significant, and these findings are informative, as they intrigue significant questions regarding the effect of autonomy on financial performance of and the relevance of having control in all the operations and functioning. All the factors discussed are intended to signal how well the corporation tries to improve its financial performance.

On the basis of these findings, high financial performing corporations are unable to distinguish themselves from low financial performing as far as firm-specific explanatory variables captured in the model are concerned. The regression result is consistent with the findings of preceding studies such as Alchin (1965) who found out that when citizens are

the ultimate owners of state-owned assets, the associated property rights are more diffuse than assets under private ownership and there is a lack of transferable residual claims, which may discourage monitoring and induce free rider problems according to (Grossman and Hart, 1980). Shleifer and Vishny (1994) found out that empowered politicians may be able to pursue their political objectives at the expense of corporate wealth. The regression output showed R-square value of 62.434%. This implies that there could be other factors that contribute to the remaining 37.566% in explaining the variation in financial performance and autonomy of corporations in Kenya.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.0 Introduction

This chapter presents the summary of the finding and discussions of the study. It also covers the recommendations for further studies on related issues on the study not well covered as well as recommendations on matters of autonomy and financial performance. The study finally addresses the limitations of the conclusions of this study.

#### 5.1 Summary of Findings

It can be summarized from the findings that a widely used government control on corporations is government ownership as well as human resource decisions whereby the government makes decision hiring and firing of senior managers of corporations. On the basis of these findings, high financial performing corporations are unable to distinguish themselves from low financial performing as far as firm-specific explanatory variables captured in the model are concerned. The regression result is consistent with the findings of preceding studies such as Alchin (1965) who found out that when citizens are the ultimate owners of state-owned assets, the associated property rights are more diffuse than assets under private ownership and there is a lack of transferable residual claims, which may discourage monitoring and induce free rider problems according to (Grossman and Hart, 1980). Shleifer and Vishny (1994) found out that empowered politicians may be able to pursue their political objectives at the expense of corporate wealth.

This study was guided by agency theory, complemented by the stakeholder theory of the firm. The stakeholders' theory holds the potential for understanding the financial performance and autonomy relationship stakeholder theorists argue that the organization's FP is determined by their stakeholders' provision of resources in response to the organization's actions. A stakeholders decision to either provide or cease to provide resources to the organization is the culmination of complex considerations that coalesce within an overall evaluation of the organization's reputation. Stakeholders are uniquely positioned to affect the FP of the organization whether through withholding or providing efforts (e.g. employees), infrastructure (e.g. government or cash flow (e.g. customers), among other things.

## **5.2 Conclusion**

This study investigated the effect of autonomy of financial performance commercial state corporations in Kenya. It was intended to investigate the level of autonomy of commercial state corporations which identified explanatory variables which lead the explained variance in the dependent variable, the financial performance. The data collected was presented using descriptive statistics and analyzed using multivariate regressions. The findings show that majority of the corporations which are in autonomy were from ministry of Agriculture 23%, Ministry of information and Communication, Ministry of Education Science and Technology, Ministry of Transport and Ministry of energy 12%.

In all the estimated model coefficients, the PF-values were less than .05 (.05>.024415), implying that the variables tested do not significantly influence the financial performance at 5% significance level. PR2 was 62.434%, which means that the explanatory variables accounted for only 62.434% variation of the response variable. Consistent with the hypothesized signs, the Government ownership (GOV) and human resources (HR) were positively related to financial performance.

The respondents stated the following as what needs to be done to improve the corporation's financial performance with regards to autonomy from the government, the government should give the corporations the leeway to make decisions on investment and expansion as well implementing day to day functions. On the other hand the government should enable clear information and performance feedback, increase incentives and motivations among corporation employees. The government should propose strategic direction, leadership, capacity building and organizational audits in addition to team building, reorganization and restructuring of corporations.

### **5.3 Recommendations**

It is recommended from the study that besides this significant model explaining the variation in the effect of autonomy on financial performance, this research is informative because the findings are consistent with intriguing findings of limited prior research regarding the relevance of autonomy of corporation in improving on financial performance.

Although this research is to some extent Kenyan-specific, the findings help clarify preceding empirical autonomy of government corporations' research regarding the effect of autonomy on financial performance. There is no publicly available information provided by the government on the level of autonomy among corporations it relevant for more studies to be done on the same. Therefore, the government through its relevant corporation's regulatory departments needs to review the disclosure requirements for the autonomy of corporation and how financial performance can be improved.

#### **5.4 Recommendations for Further Research**

- (i) To find out the factors that impact negatively on financial performance of state corporations.
- (ii) To find out the factors that impact positively on financial performance of state corporations.
- (iii) To establish the determinants of financial performance among state corporations in Kenya.

#### **5.5 Limitations of the Study**

- (i) Time was a limiting factor. The researcher is in full time employment and therefore did not have adequate time especially in the collection of data.
- (ii) The unwillingness of the respondents to supply the right response was another limiting factor. The respondents were suspicious that such study could expose their organization functions. Equally the managers were jittery about exposing

their identity for fear that their corporations would not be comfortable with such an exposure on the happenings within their operations.

(iii)Limited resources on the part of the researcher were another limitation. The researcher lacked adequate funding for conducting the research.

(iv)There are many variables that do impact on financing performance of any state corporation for instance the level of education continues to be critical component. However the researcher was limited to variables that are a control to government.



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## APPENDICES

### APPENDIX I: QUESTIONNAIRE

#### INSTRUCTIONS

This questionnaire collects information on the Effect of autonomy on financial performance of commercialized state corporations.

Please complete this questionnaire, considering each question thoughtfully and honestly.

Your responses will be strictly confidential and data from this research will be reported only in the aggregate. All information will be used only for the purpose of this study.

#### PART I: DEMOGRAPHIC INFORMATION

1. Name of the corporation (optional) \_\_\_\_\_

2. Nature of business of the corporation \_\_\_\_\_

3. For how long has the state enterprise been in operations?

10 years or less [ ]

11 to 20 years [ ]

21 to 30 years [ ]

More than 30 years [ ]

a. For how long has the enterprise been in autonomy? (tick the most appropriate)

Since it commenced [ ]                      Less than 5 years [ ]

For 6 – 10 Years [ ]                      For more than 10 years [ ]



4. Kindly explain the reason why the state granted the corporation autonomy?

.....  
.....  
.....  
.....

5. How did the autonomy of the corporation influence its service delivery?

Highly decreased      [ ]              Decreased              [ ]  
No change              [ ]              Improved              [ ]  
Highly improved      [ ]

a. Does the corporation have competitors?

Yes              [ ]              No              [ ]

b. If yes, how competitive is the corporation compared to its competitors?

Below competitors      [ ]              Same as competitors      [ ]  
Above competitors      [ ]

6. What is the ownership structure of the corporation? (Tick all that applies)

Government              [ ]  
Citizen                      [ ]  
Corporative              [ ]  
Any other:.....

**PART II: AUTONOMY OF THE ENTERPRISE**

7. When hiring and firing senior managers, what level of influence does the government have?

- No influence            [ ]                      Low Influence            [ ]
- Moderate influence    [ ]                      High Influence            [ ]
- Very high influence    [ ]

8. Who appoints the directors and senior management of corporation?

.....  
.....

9. a. To what extent does political influence affects the business of the corporation?

- Not at all            [ ]                      Low extent            [ ]
- Moderate extent    [ ]                      High extent            [ ]
- Very high extent    [ ]

b. In your opinion, does the service charter or Act that established the corporation have loopholes that factors political interference with your operations?

- Yes            [ ]                      No            [ ]

10. What are the sources of the corporation's funds/finances for the following?

	Government	Sales	Credit Facilities	Grants
Operational expenditure				
Capital expenditure				
Expansion				

11. a. Does the government subsidize the amount that the corporation charges its customers?

Yes  No

b. If No, at what rate does the corporation offer its services?

Below market rate

Same as market rate

Offered above market rate

12. Kindly rate the intensity of governments' control of your corporation along these lines. Use the following keys: 1 not at all; 2 = low extent; 3 moderate extent; 4 = high extent; and, 5 = very high extent.

	1	2	3	4	5
Control on Human Resources/Hiring and firing of members of staff					
Control on Financial Resources					
Control on Purchasing Decisions					
Control on Strategic issues (Policy/control formulation)					

Control on Acquisition and Mobilization of Resources					
Control on Output Decisions (pricing decisions)					
Remuneration and allowances					

Into what uses are profits of the corporation made?

Forms part of governments' revenues [ ]

Paid as dividends or bonus [ ]

Retained in the corporations' reserves [ ]

Any other:.....

**PART III: AUTONOMY AND FINANCIAL PERFORMANCE**

13. Kindly rate the influence of the ministerial, departmental or regulator on the following by the state corporation. Use the following keys: 1 not at all; 2 = low extent; 3=moderate extent; 4 = high extent; and, 5=very high extent.

	1	2	3	4	5
Take out loans					
Set charges for services					
Shift budget allocations between personnel and running costs					
Shift budget allocations between years					
Establish subsidiary companies					

14. In your opinion, how do you compare the financial performance of the corporation after its autonomy?

- |                  |     |           |     |
|------------------|-----|-----------|-----|
| Highly decreased | [ ] | Decreased | [ ] |
| No change        | [ ] | Increased | [ ] |
| Highly Increased | [ ] |           |     |

What would you recommend need to be done to improve the corporation's financial performance with regards to autonomy from the Government?

.....  
.....  
.....

Any other comment?

.....  
.....  
.....

**THANK YOU FOR YOUR TIME.**