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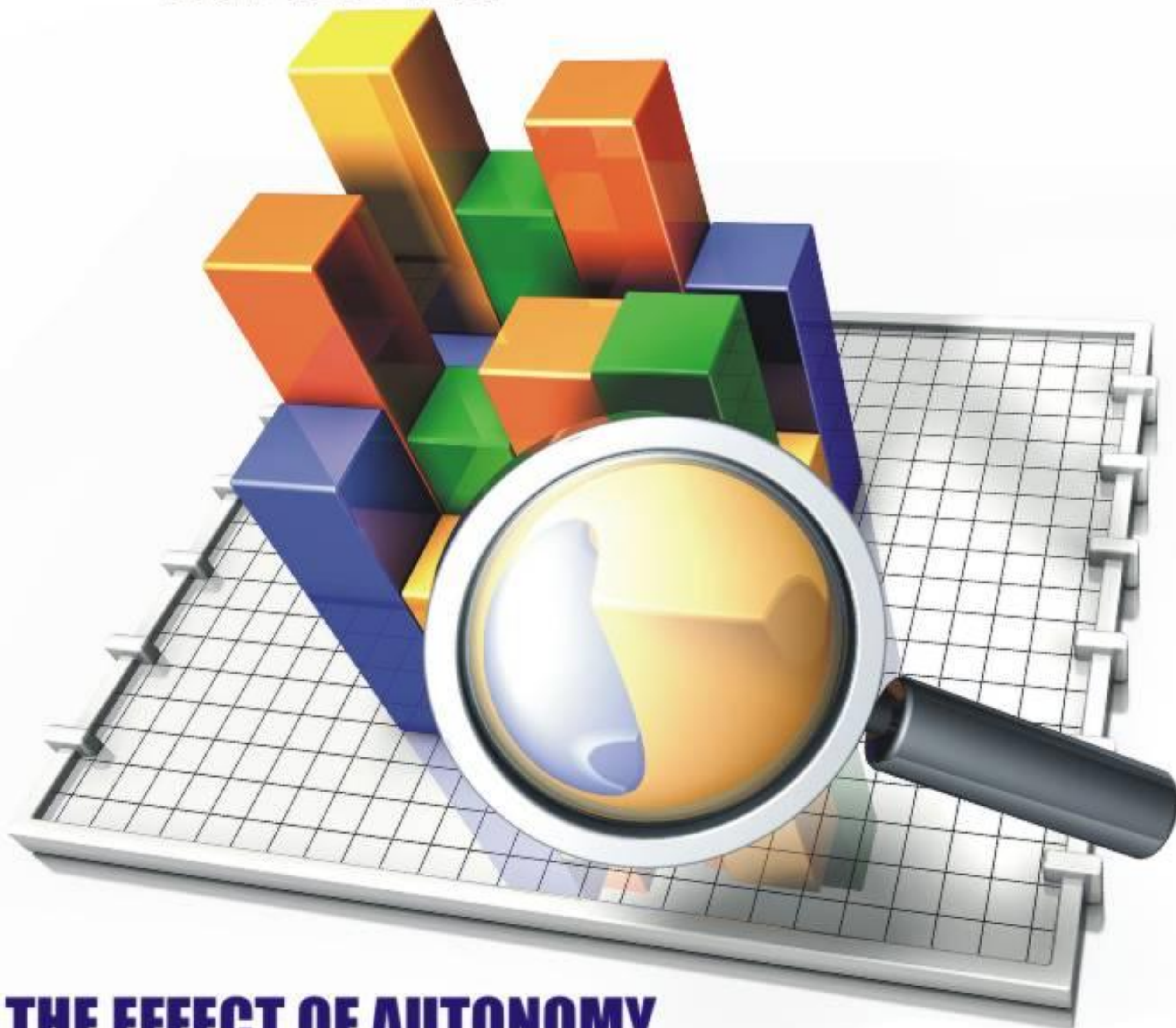

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Mercy Ong'onge and Zachary B Awino

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Full Length Research Paper

The effect of autonomy on financial performance of the Kenyan owned commercial state corporations

Mercy Ong'onge and Zachary B Awino

Department of Business Administration, School of Business, University of Nairobi, Kenya.

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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 led to improvement 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 outof31 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 stakeholder needs. They also felt that autonomy is likely to lead to improvements in the quality of life for 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 intervention and control on it 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 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. In the light of the research findings, the researcher recommends what needs to be done to improve the corporation's financial performance with regards to autonomy from the government. The government should give the corporation's 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. This study will be helpful to managers and decision makers in that they will make informed decisions on the level of autonomy to adopt in their teams since the decision to grant teams or employees' autonomy is associated with costs and benefits. For example eliminating supervisory roles by shifting the organizational structure from hierarchical to horizontal could reduce costs. On the other hand, such a shift involves a sacrifice of control by management, and it is easy to imagine contexts in which this would be undesirable while putting in mind that autonomy is enhanced worker motivation. Since autonomy makes the process of financial accountability for the nature and quality of services provided by organizations stakeholders will use make the accompanied responsibility to demand for more timely, detailed and accurate financial statement from state corporations. The findings of this study are beneficial to policy makers owing to the fact that most financial performance measures of State-owned enterprises in the country have assumed a more diverse role as a result of reform programmes which have introduced greater degrees of operating management autonomy, market responsibility and profit sharing incentives at the enterprise level. This paper is important since there is witnessed changing role of accounting performance criteria in meeting the needs of operating managers of State enterprise who have an increased decision-making autonomy. At the same time the study will be helpful for practical and conceptual solutions ensuring that the needs of government corporations are maintained for financial performance criteria related to economic planning and control. The findings of this study will enrich existing knowledge and hence will be of interest to both researchers and academicians who seek to explore and carry out further investigations. It will provide basis for further research in terms of concepts, methodology and theoretical review.

Key Words: Autonomy, Financial Performance, Commercial State Corporations, Kenya.

INTRODUCTION

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 (Gamier,1982).

Agentification and the creation of quasi-autonomous public bodies have been prominent on the reform agenda in numerous Organization for Economic and Co-operation Development (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 et al., 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 (IPSAs) 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 reliefs 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. 22223/96 (ESA 95)". Those systems shall be subject to autonomy or independent control and audit (IFAC Policy 4, 2012).

Kenyan State Corporations

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 1934 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 cabinet secretary) 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 role as 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).

Autonomy of State Corporations

International Federation of Accountants (IFAC) (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 are functioning inefficiently, both in terms of technical and allocation 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.

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 costsare 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).

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 (for example, share price) and autonomy.

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).

Theoretical foundation

Measuring financial 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).

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 (Heracleous, 2001). 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 and 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.

Stakeholder theory

It has previously been suggested by scholars that stakeholder's 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 (for example, employees), infrastructure (for example, government or cash flow (for example, customers), among other things (Rowley and Berman, 2000).

Jones and 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 and Wicks, 1999).

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 organizations 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)

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 defined 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.

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.

Total assets turnover $=\frac{Sales}{Total\ Assets}$ ………………………..……… (1)

Earnings per share $=\frac{Profit\ After\ Tax}{No.\ of\ share\ issued}$ ………………………….. (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:

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 institutions can be quite difficult to measure. The most widely used measure of portfolio quality in institutions is portfolio at RCS (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).

Financial management

Financial management assures that there is enough liquidity to meet a financial lending institutions obligation 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).

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).

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 inisolation 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).

Empirical Evidence

Autonomy is also conjectured to increase public accountability and consumer satisfaction (Collins et al., 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 though 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 et al., 2008). Recently several researchers have focused on the autonomy and control of public sector organizations, especially as regards agencies. In agency studies, 'relational' 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 independence (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 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 (that is, 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.

METHODS

This study was descriptive in nature and a census method was used since there were a few commercial state corporations. The population comprised of the entire commercial state corporation. According to

Table 1: Commercial state corporations in Kenya

Ministry in Charge Of State Corporations	Number of Commercial Corporations
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 Wild Life	2
Ministry of Lands, Settlement and Housing	1
Ministry of Water and Irrigation	1
Total	**31**

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

Guideline on the Terms and Conditions for State Corporations (2010), there are 31 commercial state corporations in Kenya as presented in table 1. 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.

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 within a given period of time

RESULTS

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 1 illustrates this:

From the findings it can be deduced that autonomy of corporations has led to increase 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 decision 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.

Regression results

Using STATA, following regression analysis was estimated.

$$FP = \beta_0 + \beta_1 GOV + \beta_2 0UT + \beta_3 SI + \beta_4 AMR + \beta_5 HR + \beta_6 FR + \beta_7 PD + \varepsilon$$

The fitted regression model is presented as follows:

$$FP = 8.357221_{(0.01581)} - 1.001357_{(0.01412)} GOV + 11.81009_{(0.01347)} OUT + 0.604081_{(0.01133)} SI + 6.008178_{(0.00210)} AMR - 3.3\ 14664_{(0.0025)} HR + 5.30127_{(0.0245)} FR + 6.411554_{(0.0135)} PD$$

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

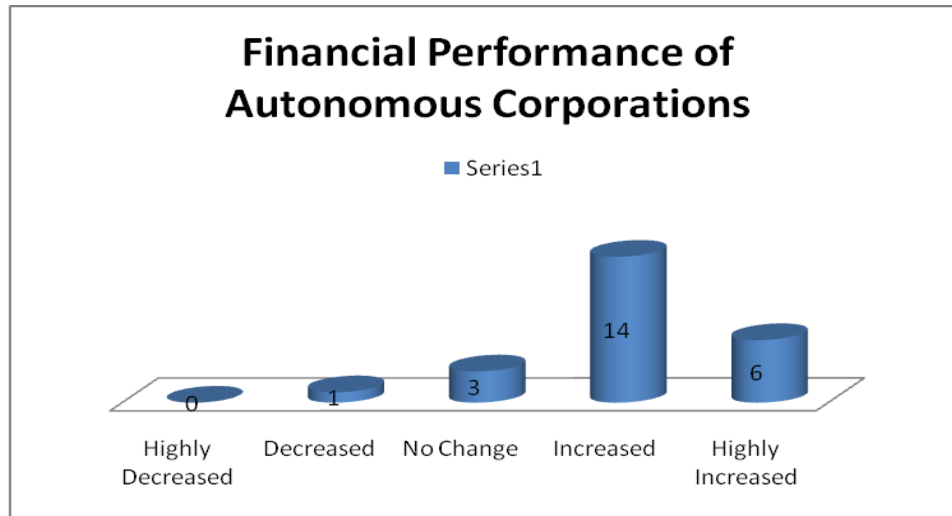

Figure 1: Financial Performance of Autonomous Corporations
Source: Author (2012)

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 (that is 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 that is 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.

CONCLUSIONS

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.

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.

Implications of the Study

The study was conducted to find out the effects of autonomy on financial performance of commercial state corporation.

One of the sources of inefficiency of state owned enterprises (SOEs) that has been widely recognized across both developed and developing countries is the lack of managerial autonomy in decision making. This is on account of excessive intervention and control exerted in most operational matters by the *de facto* caretakers of SOEs, namely the politicians and bureaucrats (Bolton, 1995; Lioukase/ *al,* 1993; OECD, 2005). Inefficiencies on account of political intervention are said to arise as the objectives of the politicians are driven by their desire to seek rents and their need to cater to the demands of various interest groups that constitute their vote banks (Shleifer and Vishny, 1994; Gupta, 2008). Control by politicians, by distorting pricing, investment, location, production and resource allocation decisions lead to excessive labor employment and wages (Bolton, 1995; Shleifer and Vishny, 1994), and are found to adversely affect allocative and dynamic efficiency in general. As suggested by theories of decentralization, agency theory, and incentive contracts, imparting greater decision making control to SOE managers can generate efficiency gains through better use of local information on operational factors such as costs, technology and demand, and through alleviating agency costs arising from asymmetric information between the government and the SOE management (Bolton, 1993; Li and Wu, 2002; Shirley and Xu, 1998).

With the new constitutional dispensation, most of the state corporations that have had centralized operations are facing a lot of challenges in terms of their revenue and scope of operations and their management has been forced to re-strategize on which best way to discharge their mandate. This is further complicated by the fact that the parliamentary Acts that formed these state corporations restricted their mandates to specific services. This has not been made easier because of lack of autonomy in terms of BOD composition and the mandate for which such corporation were formed.

The Kenyan Government in 2013 appointed a task force named the presidential task force on parastatals reforms transforming the operations and performance of GOEs to ensure they generate values for money expended as well as reduce dependency on the exchequer (Presidential Taskforce on Parastatals Reforms, 2013) to look into the performance of Parastatals through Parastatals reform commission that recommended the merging of some state corporations. The study laid out some of the basis/ factors to consider that could be adopted by such task forces before the re-organisation of some of these state owned corporations. These state corporations were formed by an act of parliament that needed to be repealed, make them autonomous and let them compete with the private sector organizations.

The study also implied that if a good number of state corporations were made autonomous, it will likely lead to reducing the Government recurrent expenditure and release some of what has been used for recurrent expenditure for Development budget thus spurring economic growth although the taskforce recommends the formation of an oversight authority to retain some level of control.

Some of the proposal that have been put forward like the Cheserem led commission like performance contracting would not be strongly objected to by employees of state corporations if they were made autonomous. State Corporation would be able to attract

the best work force and remunerate them competitively to retain them. Where Government are involved in the appointment of state corporations management team their pay is not likely to t be linked to performance. The study has implied that state corporation pay should be left to be determined solely by those involved in its management without being influenced by the state

One of the key recommendations of the taskforce is enacted of a single overarching law, that will repeal all individual enabling legislation and reorganize the unique characteristics of each state corporations and provide an institutional framework that promotes accountability, good corporate governance and results orientation without stifling operational autonomy. Given the long process of law making, it may take time to bring the expected law regime into fruition in the foreseeable future.

Abbreviations

- International Public Sector Accounting (IPSAs)
- Organization for Economic and Co-operation Development (OECD)
- International Public Sector Accounting (IPSAs)
- International Federation of Accountants (IFAC)
- Chartered Institute of Public Finance and Accountancy (CIPFA)
- Non-Executive Directors (NEDs)
- Financial Performance (FP)
- Portfolio At RCS (PaR)
- Kenyatta National Hospital (KNH)
- Human resource (HR)
- State Owned Enterprises (SOEs)

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