STAKEHOLDER INVOLVEMENT STRATEGY AND PERFORMANCE OF KENYAN STATE CORPORATIONS: A CASE STUDY OF ENERGY GOVERNMENT FUNDED FIRMS

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DECLARATION

I declare that this is my original work and has not been submitted in any other university for examination purposes. Due acknowledgment has been given where text and data have been borrowed from other sources, accredited and references cited by anti-plagiarism regulations.

Signature……………………… **Date…………………………**

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This project has been submitted for review and examination with my approval as the university supervisor.

Signature………………………… **Date…………………………**

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DEDICATION

I dedicate this work to my loving husband who encouraged and supported me to pursue further education.

To my parents, who gave me the foundation of life and helped me appreciate the value of education. May the almighty God bless them abundantly.

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This research project has been actualized with the support of many people,

First and foremost, I would like to be grateful to the almighty God for the gift of life and giving me the strength and endurance to carry out this research. Admittedly, it has been a very long journey.

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ABBREVIATION AND ACRONYMS

CSR	**-**	Corporate Social Responsibility
HELB	**-**	Higher Education Loans Board
IPMA	-	Institute of Project Management Association
ROA	-	Return on Assets
ROE	**-**	Return on Equity
ROI	-	Return on Investments
KIIs	**-**	Key Performance Interview

ABSTRACT

The prosperity of a firm is dependent mostly on propelling stakeholder cooperation. Hence, the performance of a firm is is directly proportional to the effectiveness of managing the conflicting interest of various stakeholders. The aim of the current study is to scrutinize the influence of stakeholder involvement strategy on the performance of government-funded energy corporations in Kenya. The study used the cross-sectional survey with the sole purpose of determining the rate (or level) of a specific aspect, in a distinct populace at a precise point in time. The study also used the descriptive survey design as it sought to answer the question of what is going on which is an important aspect to consider for social researchers. This study was a census targeting all the government funded energy firms in Kenya. Currently, there are nine government-funded energy firms in Kenya. Primary data source was used in this study where data was obtained through interactive interviews. The main instrument of data collection in this study was an interview guide. In-depth interviews also encouraged capturing of respondents' perceptions in their own words, a very desirable strategy in qualitative data collection. Targeted interviewees comprised of managers from each of the nine government-funded energy firms in Kenya. In this study data was collected from general manager and the line managers in the energy firms. The nature of data collected was qualitative and was therefore analyzed using content analysis technique. This is a technique of making inferences by systematically and objectively identifying specific characteristics of messages as the basis to relate trends. The study established that the employees and other stakeholders play an imperative role in managing the organization's performance. The decision making techniques have an influence on the organizations performance. The study also established that customer's feedback on the perceived value of a firm's products is always sought to tailor its usefulness to the customer need. In addition the study found that customer's input on the product pricing is always incorporated in the organizations decisions. The study concludes that customer accessibility to the organization's products is an important variable that the organizations considers during the distribution of the services and products respectively, as well as the firm endeavors to offer eco-friendly products and being environmentally responsible and quality of the products meet their expectation respectively. The study concludes that the organizations has a clear and transparent ordering procedure that apply equally to all suppliers, and that the organizations and suppliers relationship is made with a long-term view and consider the price received from the suppliers to be fair to the organizations. The study recommends that the government of Kenya as the vital stakeholder should consider privatizing these firms to make them more efficient and more competitive in the economy. This will improve the quality of their services and even make them more accountable for their actions rather than hiding under a cloud of government bureaucratic procedures. The process of privatization should also be consultative

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

An organization is an intricate network of inter-relationships with various stakeholders influencing its performance. Indeed, Jawarand McLaughlin (2011) suggests that the prosperity of firm operations is dependent mostly on propelling stakeholder support. Hence, managing the conflicting interest of various stakeholders influences the effectiveness and performance of a firm. Stakeholder management signifies the need for an organization to enthusiastically maintain affiliations with multiple stakeholders (Freeman, 1984) with the administrative decisions and engagements being the main aspects that impact organizational-stakeholder relations (Phillips, Berman, Elms & Johnson-Cramer, 2010). The ability of a firms' management to coordinate multiple relationships creates healthier trade prospects over the establishment of trust (Freeman, Harrison, Wicks, Parmar, & Colle, 2015). The implication is that an organizational leadership capacity to incorporate the collective interest of corporate stakeholders is an optimistic influence on corporate performance. Hence, an organization should regularly audit the consequence of its operations to the general public as opposed to relying only on the objectives of the stakeholders like wealth maximization, to determine strategies.

The study was anchored on the Agency theory (Freeman 1984; Phillips et al. 2003) and Managerial hegemony theory (Barbara, 2013). Agency theory takes the view that in contrast with the traditional view of the firm that was more inclined to maximizing organization profits, a more contemporary look is the need to recognize the broader contribution that stakeholder imparts upon the organization towards the realization of its objectives. Consequently, from an in-depth view of the firm, the impressions suggested in agency theory recommend that the principal engage the agents on a contractual relationship to act on their behalf. Thus the principal entrusts the agent with some of the decision making authority (Denise 2001). Therefore, managers need to neutralize any conflicting interests of many stakeholders to sustain the firm’s business survival (O’Riordan2014). The Managerial hegemony theory takes the view similar to that of agency theory that “corporations have governing boards used by professional managers to support and validate their decisions. Managerial hegemony theory indicates that a class of professional managers runs the modern corporations and that it is those managers, not the board of directors, who make all the strategic decisions” (Barbara, 2013). The stakeholders’ perception of firm collective duty on the supply or rate of elements of production (McWilliams & Siegel, 2001) and the degree of common worth conception (Porter & Kramer, 2011) will affect a firm’s performance. Similarly, ethical incentives may vary the conduct of various stakeholders, together with customers who may be ready to repay more for a product or service professed as communally accountable.

The need of organizations to consider the interest of their stakeholders in the formulation of their importance has become a dominant issue in the present day business environment due to their perceived effect on the realization of organizational objectives. This necessity is not only restricted to private business entities but also public organizations. Public corporations in Kenya operate in open systems, and the stakeholders of every strategic move can support the strategic move or not, and their action is essential to the organization. Consequently, the study sought to find out the influence of stakeholder involvement on the performance of public corporation in Kenya.

The energy sector in Kenya is an essential player in the actualization of the Vision 2030. The Kenya government expects the industry to generate adequate power to drive the economic transformation of the country to middle-income status by the year 2030. However, for the industry to realize this noble objective, it needs to incorporate the views of various stakeholders in its strategies. Lately, several energy sector players in the country, such as the Kenya Power, Kengen and the independent power producers have been in the limelight for undertaking adverse actions that were not in line with the best interest of its stakeholders. Kenya Power, for example, has been in the spotlight for overcharging its customers for services rendered while the independent power producers have continued to generate power at exorbitant prices and yet they were only to become in times of emergencies and low power production. Other industry players such as the Rural Electrification Authority need to incorporate the views of different stakeholders in its actions. Therefore, there is a need to consider how stakeholder involvement by these energy sector players affects their performance.

1.1.1 Stakeholder Involvement

Cantu, Corsaro, and Snehota (2012) assert that "stakeholders are any group or individual who can affect, or is affected by an organization's plans and consequently requires that managers recognize all claimants of stakeholder status. However, since there are different categories of stakeholders, their interest in a firm will vary in attribute and behavior, and consequently, a firm should not endeavor to treat them in the same way. Thus, the stakeholder philosophy of 'voluntarism' encourages managers to negotiate with stakeholders and to satisfy the needs of as many stakeholders as possible" (Cantu, Corsaro & Snehota, 2012).

Stakeholder involvement is concerned with the manner stakeholders to turn into active or inactive in progressive enterprises embarked on by a firm. Truex and Soreide (2015) note that stakeholder involvement has in the recent past become increasingly important due to the escalating alarm for community matters like natural resource administration, the role of organizational players in the growth of business and the prospective price of stakeholders to an organization. Also, multi-stakeholder tactics are ways of upholding transparency in government-funded firms, like in the energy sector. Stakeholder involvement is taken as a way of intensifying productivity that arises from the recognition that if the public is an integral part in organization strategy development, there is a high possibility of supporting a new development (CSR, Europe, 2012). Further, stakeholder involvement is an essential right for mobilization of mutual action, empowerment and organization building.

Stakeholder involvement amongst an organization and its shareholders for a particular problem or matter allows stakeholders to participate in a collaborative course to create the crucial resolutions (Melo & Garrido-Morgado 2011). Additionally, this practice of mutual decision making is an operational way to resolve conflict and permit stakeholders to work together to common benefit over collective dreams. Therefore, stakeholder involvement will possibly to lead to economically, environmentally and socially justifiable strategies but the firm's management should be wary of the numerous and varied stakeholders regularly holding diverse perspectives that might derail the organization goals. Therefore, this calls into focus the need for the establishment of effective stakeholder management as an ingredient to the realization of organization performance (Ladkin & Bertramini, 2012).

1.1.2 Organizational Performance

Organizational Performance can be referred to as a set of financial (Profitability, Return on Assets (ROA), Return on Investments (ROI) and nonfinancial indicators (Market Share, Efficiency, Effectiveness, Job satisfaction) that indicate to what extent that goals and objectives of an organization have been met (Saeidi, Sofian & Saeidi, 2015). Further, Rumelt (2011) suggest that the real output of an organization is measured against their budgeted productions is what constitutes organizational performance.

The organization sets both monetary and non-financial measures of performance as desired outputs. Bryson (2018) suggest that performance results can be visible after a successful organization's operations and strategies adoption. Further, it refers to the level to which a person fulfills the desire entailing he/she is supposed to behave or function in a particular circumstance, setting, situation or work and is what individuals do relating to institutional roles.

It is, therefore, the capacity of the energy sector to achieve its desired objectives through competent management, proper governance as well as determined desire to attaining outcomes. Pearce and Robinson (2007) proposed that firms offering services must extend their analysis of overall efficiency from the predictable oriented perspective of a firm to allow mutual firm-stakeholder perception. The expanded method can assist in mitigating possible conflicts or influence interactions through improving service value and improving service efficiency. In the present research, the scorecard performance perspective measures such as financial internal processes, customer, learning and development viewpoints will be used to measure performance.

1.1.3 Energy Firms in Kenya

The government of Kenya through the blueprint of the vision 2030 is focusing on transforming Kenya into a middle-income nation. According to a report carried out by Power Africa, Kenya has a generation capacity of 2,150 MW, by 2015 that is intended to serve its population of about 43 million people. Therefore this is a significant constraint to the economic growth of the country. Kenya is alleged to have more than 7000 MW of untapped geothermal energy resources in parts of the Rift Valley region. Kenya has a projection to provide about 23000 MW by 2030 in order to attain a sustainable stable investment environment for the private sector involvement in energy, establishing expanded transmission and distribution channels to provide power to customers, standardizing a credit-worthy off-taker, maintaining cost-effective tariffs and reducing inadequacy in the industry to enhance more affordable consumer tariffs.

The energy firms in Kenya are established under the organizations's Act cap 486 of the laws of Kenya. These firms are required to invest on renewable or nonrenewable energy which is in respect to the global climate change and environmental impact for a single target of generating energy. The top energy companies in Kenya include; Kenol-Kobil, Total Kenya, Kenya Electricity Generating Organizations, Kenya Power, Umeme among others. Some energy producing firms were launched with the aim of generating wind and solar energy in Kenya with the actual belief of establishing to become large solar, wind power generating companies in East Africa but the untapped potential of pure energy generation.

1.2 Research Problem

The interest in the behavior and action of organizations, and in particular big corporations, has been re-ignited for more than a decade as a result of frequently reported ‘scandals’ linking businesses such as banks, telecoms operators, energy firms among others (Mallen2012). It is currently a dominant view that rather than purely performing as representatives of shareholders, managers should also embrace stakeholder democracy, corporate accountability, and employ appropriate governance to define their day to day actions. Essentially, managers should be ready with the duty of harmonizing the conflicting interests of various stakeholders, by pinpointing and prioritizing stakeholders and their assertions, for the prolonged continuity of the firm (O’Riordan2010). Indeed, for companies to subsist, it ought to be capable of functioning effectively with environmental forces that are unbalanced and uncontainable and which can significantly affect the decision-making procedure and ultimately the performance of a firm. Organizations acclimatize to these environmental forces as they strategize and perform strategic activities. Owolabi and Makinde (2016) highlight that it is by an effective strategic design that an organization can foretell alterations in the surroundings and act pro-actively to influence its performance positively. One of the external factors that have been identified to affect the performance of a firm is its stakeholders, to which this relationship has attracted many studies with comprehensive results.

Harrison and Wicks (2013); Michelon, Boesso, and Kumar (2013) studied the relationship among strategic corporate social responsibility and Firm’s Performance by analyzing the best corporate populations of United kingdom firms and found that when a firm follows CSR activities that link to stakeholder preference, it has a positive effect in relation to both market best and accounting procedures. Further, Henisz, Dorobantu, and Nartey (2014) investigated the monetary proceeds to stakeholder commitment among 26 gold mines owned by 19 publicly operated companies over the period 1993–2008 in the USA. The research findings did not find a direct relationship between the productive efficiency of the firms and stakeholder collaboration.

Jerotich (2013) researched on “the correlation between Corporate Social Responsibility and financial performance of firms in the manufacturing, construction and allied sector of the Nairobi Securities”. The research determined that “there is a strong relationship between the independent variables (CSR practice, efficiency, and Capital intensity) used in the model and the dependent variable (ROA). Obusubiri (2009), in a study in CSR and portfolio performance also found a positive relationship between CSR and Portfolio performance. He attributed this relationship to the right corporate image that comes with CSR making investors prefer such companies implying that good CSR behavior has reputational benefit for the firm” (Jerotich, 2013). Masinde (2012) researched CSR towards employees and corporate performance of sugar manufacturing companies. The study did not establish a substantial correlation between the variables. Ndungu (2015) investigated further on the CSR and performance of the motor vehicle establishments in Nairobi, Kenya. The findings revealed that the benefits attributable to the adoption of the CSR activities include an increase in the firm's revenue. Improved efficiency and effectiveness of the firm's processes, improved level of customer satisfaction, as well enabling the motor vehicle firms to employ modern manufacturing processes that will not pollute the environment and at the same time enhance the production efficiency levels. By the above studies, it can be concluded that though an attempt has been made to investigate how a firm’s performance is affected by an organization's social responsibility activities, there has not been a study that sorts to determine the nexus between stakeholder involvement and firm performance in the energy firms. Also, most of the studies have resulted in conflicting findings that justify further studies to be undertaken to determine the relationship. This study, therefore, tried to fill in this gap by endeavoring to discover the relationship between stakeholder involvement and Kenya's energy firms’ performance. Thus, the study sought to answer the following research question: what is the effect of the stakeholder involvement strategy on the performance of government funded energy in Kenya?

1.3 Research Objective

To establish the influence of the stakeholder involvement strategy on the performance of government funded energy firms in Kenya.

1.4 Value of the Study

This study attempted to fill the knowledge gap existing on the relationship between stakeholder involvement and production of energy firms in Nairobi. It also demonstrated the level in which these companies have embraced stakeholder involvement and how beneficial it is to them.

This research depicted how the energy firms must embrace stakeholder involvement in their strategic planning for financial and non-financial benefits. The study enumerated on the nature of undertakings and the advantage they have on productivity in the energy firms. The study investigation may add content to agency theory, and other methods relevant to stakeholder involvement in state corporations. The study might be valuable to the government of Kenya in strategy formulation concerning stakeholder involvement for the different segments in the economy. This research can be replicated to other sectors to establish how they can be improved.

Having no other related investigation on stakeholder involvement and performance in the energy firms in Kenya; this study provided significant information on the subject matter. Other researches for further studies can use the findings of this research.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This section outlines literature about stakeholder involvement and its influence on firm performance. The main thematic areas covered comprise of the theoretical framework that underpins the study, the effect of stakeholder involvement on firm performance, empirical studies and the research gap.

2.2 Theoretical Foundation

The theoretical perspective of this research was informed by Agency theory and the Managerial hegemony theory. The two approaches are relevant to the governance of state corporations as discussed below.

2.2.1 Agency Theory

Agency theory according to Jensen and Meckling (1976) postulates parties in a contractual affiliation; where the principal engages the agent to serve on their behalf (Denise, 2001). Thus, the principal mandates the agent with some of the decision making authority. However, there exists a conflict of interests as the concern of the principal is maximizing wealth, while the agent is interested with issues like career goals, hefty salary perks, corporate jets, plush offices, among others. Yusof (2016) postulates that “the structure of modern companies is by a separation of ownership and control, a situation where the true owners of firms and corporations, the shareholders, have little influence over the companies’.” Koech (2018) asserts that based on the fragmented ownership of firms and the conflict of interests, the board of management is an alternative way for monitoring and control. The relationship may not be necessarily healthy as a result of constraints in the principal-agent model. Agency theory argues that the board of managers has a role in involving stakeholders and maintaining the actual coercion between stakeholders, maximizing the performance and protecting the firms' investment.

From the foregoing, "the theory thus strives to come up with the most efficient contractual terms which will minimize the principal-agent conflicts assuming that individuals are steered by self-interest, bounded rationality and are risk-averse, organizations by goal conflicts between and among the members, and information is a commodity that is achievable" (Kamau, 2013). Thus, the theory is appropriate for this study as the researcher seeks to establish how stakeholder involvement influences the performance of Kenyan state corporations. "State corporations are owned by the citizens who mandates its ownership to the executive arm of the government." The president as the head of the executive appoints Boards of Directors to oversee the operations of these corporations. State corporations have multiple agents, unlike the private sector where there are only the shareholders and the management. Kenyan state corporations, therefore, have the state and the board of directors as the agents of the voters. This phenomena sometimes results in complexities since the politicians are directly accountable to the voters. Consequently, they (politicians) may lose focus of the corporations' goals in a bid to impress sections of the electorate. Efficiency in the operation of the state corporations is undermined, and so is the performance. This research sought to determine the performance strategy used to involve the stakeholders in state corporations.

2.2.2 Managerial Hegemony Theory

Managerial hegemony theorists' basic principle was that "corporations have governing boards used by professional managers to support and validate their decisions. Managerial hegemony theory indicates that a class of professional managers runs the modern corporations and that it is those managers, not the board of directors, who make all the strategic decisions" (Barbara, 2013). According to this theory, "corporates boards are legal fictions which are ineffective in averting conflicts between management and stakeholders in spite of the powers conferred on them to realize the same" (Kamau, 2013). The theory emphasizes the role of agents in support of the agency theory, but focusing on the organization structure viewpoint. Managerial hegemony theory suggests that "boards of directors will not get involved in strategic decision-making independent of management and conversely that professional managers will resist calls for board involvement in strategic decision-making" (Barbara, 2013).

Managerial hegemony theory supports the perspective of agency theory that recognizes the shareholders in a corporation. Therefore the approach is relevant to this study as it introduces the shareholders, board of governance and the managers as the stakeholders in the state corporations. According to Kamau (2013), " the board in state corporations does not have the power to carry out its duties. It is merely reduced to a rubber stamp institution for management with decisions originating from not only the executives but also politicians and managers"; where the performance of the corporations may be adversely affected. Thus this theory can be applied for this study as the researcher sought to establish stakeholder involvement strategy on performance of Kenyan state corporations.

2.3 Stakeholder Involvement and Performance

Different actors are considered relevant to a firm, but many scholars consider shareholders as the highest priority firm stakeholder, partly because there are no specific agreement with the organization, a phenomenon that marks them residual claimants (Fama and Jensen, 1983). The shareholders are interested in different forms of returns that a firm generates and therefore, the realization of the final conceivable profit to investors is the principal obligation of corporate executives. However, Barney (2011) is of the view that stakeholders that offer more or superior resources to the organization than their agreements should be eligible to some of the additional value created. Indeed, according to Kaplan and Norton (2012), a firms' goal should not only be to maximize shareholder value but rather the interests of all other stakeholders. The Balance Scorecard advanced by Kaplan and Norton suggest that the performance of a firm should not only be measured by the traditional financial measures but by a firm relationship with its customers, ability to innovate and learn, as well as improved internal efficiency.

Tantalo and Priem (2016) identify the major categories of stakeholders to consist of employees, suppliers, customers, and shareholders. They suggest that in the case of employees, for example, if they have confidence that the firm has their interests at heart, and offers them a decent deal in terms of the overall worth from a firm, in comparison with their opportunity cost, in the spirit of reciprocity, they are likely to give effort and allegiance beyond that which would else be the situation. This change in attitude is expected to lead to a rise in the performance in the form of improved products that meet the low cost of production to guarantee its customer's value proposition. Greenwood and Van Buren (2010) further note that an organization's customers determine to demand such that when customers increases, so do demand. In a nutshell, demand enhances growth of a firm's selling potential and the revenues. Thus more significance to stockholders and excess profits that executives can re-invest, with a portion of that re-investment recouped to employees as a value in the form of greater reward.

Aregbeshola and Munano (2012) in their study found that lack of involvement of stakeholders' results in poor performance due to the lack-luster implementation of the plan set forth and therefore, stakeholders' buy-in is essential in the success of a strategy. Various stakeholders are a repository of different forms of information, knowledge, and experience that they have an effective utilization of this knowledge is expected to contribute towards developing the organization plan. Dess et al. (2012) suggest the involvement of stakeholders as early as the planning stage of the development of a strategy ensures the effectiveness of programs developed and the realization of organizational performance. Thus engagement of stakeholders provides quality input to the firm regarding creativity that eventually lead to quality decision-making. In the same involvement, stakeholders derive greater satisfaction, and the chances of successful implementation increases as more stakeholders feel committed to the plan, as what is implemented reflects their genuine aspirations.

Lynch (2012) advice organizations not to involve stakeholders just as a "public relations" activity but to have it ingrained in the stakeholders due to the value they add to the strategy formulation and implementation process. The complexity of the stakeholder's web calls for a thorough understanding of the environment that the strategies will be implemented in and this can only be understood in depth by the people who are affected or not affected directly by the approach. Laine and Vaara

(2007) observe that lack of participation may not always be a problem in an organization, but it may create problems during the implementation stage. Paris (2003) intimates that the stakeholders' involvement in the strategic planning creates external advocacy for the organization.

2.4 Empirical Review

A review of the various theoretical literature on the relationship between stakeholder involvement and firm performance shows that indeed many studies have been undertaken to try and determine this nexus. However, from the theoretical underpinnings of stakeholder engagement and its role in firm performance to the various empirical studies, it can be concluded that indeed the results are varied. This section, therefore, seeks to review empirical studies on stakeholder engagement and its effect on various facets of the firm performance across multiple countries to validate theoretical predictions.

Michelon et al. (2013) researched the relationship between strategic CSR and firm performance through the investigation of the best organizations stakeholders. In their research "they used KLD data on from 188 companies over a three year period covering seven aspects of corporate social responsibility (CSR), namely, environment, community, corporate governance, diversity, employee relations, human rights, and product quality. The findings were that when a organizations pursues CSR initiatives that are linked to stakeholder preferences and allocates resources to these initiatives in a strategic way, the positive effect of its CSR initiatives on corporate performance strengthens regarding both market-based and accounting-based measures of performance. However, this relationship was not observed across the board for all of the seven areas of CSR".

Oyiro (2011) investigated the role of external stakeholders in the success of policy enactment at higher education loans board (HELB). The research employed a case study research design after that the researcher interviewed six managers with different academic qualification and years of experience. The findings were that external stakeholders facilitate loan repossession and safeguarding effective and efficient compliance to the HELB Act, promoting institutional linkage between the stakeholders and the institution in such areas as creating an electronic liaison between the partners and also devising of ways to mitigate against risk exposure to the organization.

Nthia (2015) researched stakeholders' participation and performance of maritime security approach in Lamu County, Kenya. The study was a descriptive cross-sectional survey, where information was obtained by way of a structured questionnaires that were given to crucial stakeholders including; Beach Management Units, Boat Users, Kenya Wildlife Services, Maritime Police Unit, Ministry of Transport-Lamu County and Kenya Maritime Authority. A multiple regression approach was employed to find out the correlation between stakeholder involvement in maritime safety strategy and performance in Lamu County. The regression analysis results showed the insignificant effect of the stakeholders' involvement in the performance of the maritime safety strategy in Lamu County. This result is attributable to the short period after implementation of the Maritime safety strategy in Lamu County and the study.

The existing studies have clearly emphasized the importance of organizations involving stakeholders just as a "public relations" activity but rather to appreciate the significance and value creation ability of different stakeholders during strategy formulation and implementation process. Studies have evaluated the effect of strategic corporate social responsibility on firm performance, the financial returns to stakeholder engagement and how organizational leadership affects the stakeholder-firm relationship. However, a study attempting to determine the relationship between stakeholder engagement and organizational performance is not entirely settled because different studies have arrived at a different conclusion. As a result, this study will seek to fill this gap by attempting to establish the nexus between stakeholder involvement and performance of energy firms in Kenya.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The aim of the current study is to explore the effect of stakeholder involvement strategy on the performance of government funded energy firms in Kenya. This chapter discusses the approaches and techniques that were used to carry out the study. It describes the research design, target population, data collection procedures and techniques for analyzing and presenting the data.

3.2. Research Design

Ioannidis, Greenland, and Tibshirani (2014) define a research design as a blueprint for researching with maximum control over factors that may interfere with the validity of the findings. On their part, Miles, Huberman, Saldana (2013), and Parahoo (1997) highlight that, research design is a plan that shows how, when and where data are to be collected and analyzed. The study used the cross-sectional qualitative survey. "Cross-sectional surveys are studies aimed at determining the frequency (or level) of a particular attribute, in a defined population at a specific point in time" (Bowling, 2014).

This study adopted a cross-sectional survey of all the government funded energy sector players in Kenya. Cross-Sectional survey design is carefully chosen since it can be used to gather various categories of information and is fast and less costly. In addition, the design seeks to describe data and characteristics about the population or phenomenon being studied.

3.3. Population of the Study

Sekaran and Bougie (2016) describe a study population as, the whole group of individuals or items under consideration in any field of inquiry and have a common attribute. This study was a census targeting all the government funded energy firms in Kenya. Currently, there are nine government funded energy firms in Kenya (Appendix II). Since the population of the study is small, the study was a census.

In this study, the researcher targeted one manager from strategic management unit from each of the nine government funded energy firms in Kenya. These are officers who are directly involved in liaising with various firm stakeholders and the development of strategies on how to engage stakeholders in the actualization of the firm goals. Therefore, the researcher purposefully selected the respondents.

3.4. Data Collection

Primary data source was used in this study where data was obtained through interactive interviews. According to Mugenda and Mugenda (2008), primary data refers to data that the researcher collects from respondents while secondary data refers to data from other sources like records and documents, thus primary data is considered more reliable and up to date. The main instrument of data collection in this study was an interview guide. In-depth interviews also encouraged capturing of respondents' perceptions in their own words, a very desirable strategy in qualitative data collection. Targeted interviewees comprised of managers from each of the nine government funded energy firms in Kenya. In this study data was collected from general manager and the line managers in the energy firms.

3.5. Data Analysis

Data analysis is the whole process, which starts immediately after data collection and ends at the point of interpretation (Kothari, 2004). The nature of data collected was qualitative and was therefore analyzed using content analysis technique. This is a technique of making inferences by systematically and objectively identifying specific characteristics of messages as the basis to relate trends (Nachmias and Nachmias, 1996).

It captures a qualitative picture of interviewees, concerns, ideas, attitudes and feelings. In addition, it provides valuable historical and cultural insights through analysis of texts. Chelagat (2012), Tito (2012) and Ochieng (2012) successfully used qualitative analysis in their research studies.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents the analysis and interpretations of the data collected. The objective of this study was to establish the influence of the stakeholder involvement strategy on the performance of government funded energy firms in Kenya. The respondents comprised of general managers and the line managers in the energy firms.

4.2. General Information

This section presents the demographic characteristics of the respondents focusing on aspects like gender, age, job designation, and education level. Majority of the respondents were male which was an indication of gender imbalance in the organizations. Most of the respondents had worked for more than 5 years; long enough to understand stakeholder involvement strategy on the performance of government funded energy firms.

4.3. Stakeholder Involvement in the Organizations

The study sought to assess the stakeholder's involvement in the organizations and its effect on the organizations performance. The respondents were asked to indicate if their organizations have policies that govern stakeholders during strategic planning. From the findings, the KIIs indicated that the policies have played a substantial role in the planning and execution of organizations activities. The policy implementation sets the impetus in the whole strategic management process in any organizations. This is why stakeholders influence strategy and consequently end up influencing the organizations purposes that result in formal expectations in terms of achievement. An understanding of the roles and contributions of multi-stakeholders is a fundamental prerequisite for successful participatory strategy formulation process. Hence stakeholder involvement is critical for any given course of action a planning team determines to do.

The study participants were then asked to indicate what the organization is doing to promote stakeholders involvement. Most of the KIIs stated that the organizations have come up with ways of educating them on the importance of their support to the firm. Most of them indicated that they had played an indispensable role in educating and informing stakeholders of organizations progress and performance. The organizations encourage employee's participation in meeting with top management and decision making. The employees and other stakeholders play an imperative role in managing the organization's performance. The decision making techniques has an influence on the organizations performance. This means that the stakeholder's participation in the strategic management had an influence on the organizations productivity through the decisions made at the meetings.

The study pursued the level of the magnitude to which they concur with the various statements concerning their relationship with various stakeholders. According to the KIIs **(**key informant Interviewees**)** customer's feedback on the perceived value of a firm's products is always sought to tailor its usefulness to the customer need. In addition the KIIs indicated that customer's input on the product pricing is always incorporated in the firm's decisions. The KIIs further indicated that customer accessibility to the organization's products is an important variable that the organizations consider during the distribution of products and services, as well as the they endeavor to offer eco-friendly products and being environmentally responsible and quality of the products meet their expectation. Thus the companies have adopted the most effective ways of involving the stakeholders including requesting for customer's feedback.

4.5. Employees Involvement

The study sought to find out how the respondents agreed with the various statements concerning employee involvement. According to the KIIs the salary and benefits paid to the employee's measure to the market rate. They also indicated that the firms consider dealings with members of staff as part of the CSR and the secure working environment is deemed to be fair to employees. The KIIs also stated that the firm rewards individual employee job characteristic and skill variety in a manner that commensurate with their expertise and firms have policies relating to work-life. The KIIs indicated that on the values of employee involvement, echoing non-human reactions to structures in respect of their theories about motivation which make people feel valued and respected by management, by walking around and encouraging bottom up problem solving groups. The findings indicate that participating in activities such as the rapid result initiative helps the employees commit to identified performance targets. Understanding employee perception of involvement in performance management and particularly in setting performance targets is important for any organization. The KIIs indicated that for employees to understand what they need to do to improve performance and recognize how different levels of performance relate to rewards and sanctions, they need skills which they positively perceive to have been availed to them.

4.6. Supplier Involvement

The study sought to find out how the respondents agreed with the various statements concerning supplier involvement. The KIIs indicated that the organizations have a clear and transparent ordering procedure that apply equally to all suppliers, and that the organizations and suppliers relationship is made with a long-term view and considers the price received from the suppliers to be fair to the organizations. The

KIIs also indicated that the organizations pay its suppliers within the set period and their relationship with the suppliers facilitates a follow-up and cross-selling of products and services. The KIIs indicated that dimensions such as trust and commitment are shown to play an important role in high-value strategic relationships, where specific investments are high, and contractual governance alone is not adequate In such relationships, it is important that both parties perceive that they are gaining value from the relationship if it is to continue and the relationship is to be considered a success. The KIIs further indicated that supply chain management has become widely recognized as an important contributor to strategic success, helping firms meet the challenges of an increasingly competitive and dynamic environment. These pressures have driven companies toward forming closer relationships with a smaller number of suppliers who have become increasingly involved in many aspects of strategy making and day-to-day operations

4.7. Community Involvement

The study sought to find out how the respondents agreed on community involvement. The KIIs indicated that the organizations preserve a good number of job opportunities to the local community that the organizations have operations in and that the firms pay regulatory taxes and permits to the authorities. The KIIs also stated that the organizations support infrastructure, such as schools, and hospitals, required in the local community that organizations operate in and have policies that guide them in dealing with externalities linked to business such as noise or air pollution. The KIIs stated that companies that are socially responsible and strong advocates of community involvement have higher levels of engagement than companies that are not actively supporting their communities. Social responsibility in the community is a key driver of employee engagement.

4.8. Level/Stages of Stakeholders Involvement in the Strategy Formulation

The study sought to assess the stages/levels of stakeholder involvement during strategy formulation in their organizations. According to the KIIs the stakeholders are only informed of the policies and decisions that have been made. The KIIs further stated that stakeholders are only heard before policies and decisions are made, but their say may not be considered. The KIIs further stated that stakeholders have a controlling influence on the strategies and projects of the organizations, they have a chance to assess the strategy formulation process and that stakeholders evaluate and review the ideas during strategy formulation. The KIIs further stated that stakeholders are given a chance to contribute their ideas during strategy formulation process and stakeholders act as originators of most alternative courses of action during strategy formulation process. Finally, the KIIs stated that there is joint decision making with stakeholders during all stages of strategy formulation and stakeholders have vast control over the organization's control. This means that the organizations could adopt different strategies to make sure that all stakeholders participate in the implementation of the strategy.

The KII s further revealed that there exists a myriad stakeholder group who are affected and/ or who affect the various organizations operations and activities and hence matters during strategy formulation and implementation. These stakeholders range from Board of Trustees' members, customers, suppliers, unions, communities and the government. The various types of stakeholders that were enlisted by the KIIs were members, employees, suppliers and the local community. It was evident from the study that each of these groups of stakeholders influence the organizations strategies and was dependent upon the power of influence wield by a particular group which in itself depends upon other factors illustrated elsewhere in this report.

4.9. Organizational Performance

The respondents were requested to give their response on organizational performance. The KIIs stated that the organizations have a good improvement of ROA in the last five years. The KIIs also stated that the organizations have better ROA than the industry average, the organizations have an improvement of ROE in the last five years and that their ROE is better than industry average. The KIIs stated that the organizations financial investment and advancement have increased. It was established that organizations use cost control systems in monitoring performance and carrying out operational efficiency with improvement as a result of process re-engineering and innovation. The KIIs stated that the firms had developed some critical interior practices to sustain sector leadership.

The respondents were requested to give their response on organizational performance with a focus to customer perspective. From the findings the KIIs stated that the organizations have introduced new products and services to the consumers, have created value for their consumers through quality products and services and products/service quality has improved remarkably. The KIIs further indicated that there had been good structures to promote customer relationship with the organization and the firm has provided exceptional service to customers through crucial Accounts Management.

The respondents were requested to give their response on organizational performance with a focus to professional development. The KIIs stated that the board always hires qualified and professional staff, the organizations have a well-established structures to support upward employee growth to the deserving team, and the companies strives to learn on how to carry out processes well. The KII s also indicated that the firms have the right working condition that support all operations and the organization's employee productivity and staff development has improved.

4.10. Discussion of Findings

The study found that customer accessibility to the organization's products is an important variable that the organizations consider during the distribution of the products and services. The study also revealed that the firms endeavor to offer eco-friendly products, are environmentally responsible and the quality of the products meet customer's expectation. Thus the companies have adopted the most effective ways of involving the stakeholders including requesting for customer's feedback. These findings go hand in hand with the conclusion made by Dess et al. (2012) who revealed that the involvement of stakeholders as early as the planning stage of the development of a strategy ensures the effectiveness of plans developed and the realization of organizations performance. A fact that might be attributed to involving stakeholder in the provision of quality input to the organizations regarding creativity that has an influence on the organizations decision making. It also helps the stakeholders to have a great satisfaction on the organizations activities as well as its productivity.

The study found that the firms reward individual employee job characteristic and skill variety in a manner that commensurate with their expertise and firms have policies relating to work-life. The findings show that the employees and other stakeholder's involvement is based on different benefits to the organizations that have positively affected their productivity. The findings concurs with the conclusion made by David (2005) who stated that the strategic management has been adopted by many companies across the world with an aim of accomplishing the effectiveness and efficiency that leads to competitive advantage. Moreover, these companies have been able to formulate strategies to solve problems of incongruity between organizations output and the demand in the market place.

The study found that the companies support infrastructure, such as schools, and hospitals, required in the local community that organizations operate in and have policies that guide them in dealing with externalities linked to business such as noise or air pollution. The findings are in agreement with those of Michelon et al. (2013) who assessed the relationship between tactical CSR and organizations performance through the analysis of the best corporate stakeholders. The study concluded that "when a organizations pursues CSR initiatives that are linked to stakeholder preferences and allocates resources to these initiatives in a strategic way, the positive effect of its CSR initiatives on corporate performance reinforces based on both market-based and accounting-based measures of performance (Michelon et al. 2013)."

The study found that that there is joint decision making with stakeholders during all stages of strategy formulation and stakeholders have vast control over the organization's control. This means that the companies could adopt different strategies to make sure that all stakeholders participate in the implementation of the strategy. The findings support the conclusion made by Schwenk and Shrader (2003) who revealed that the strategic management contribute to the firm performance with the relevant information, developing a better comprehension of the environment and minimizing the indecision.

The study found that that there had been good structures to promote customer relationship and the firms have provided exceptional service to customers through crucial Accounts Management. The findings concurs with those of Euro, (2009) who indicated that efficacious strategic management implementation primes to action, develops a mutual visualization that is value based, it’s an inclusive participatory process in which board and employees take on a shared ownership, accepts accountability for actions and is superficially focused and thoughtful to the environment.

The study found that the board always hires qualified and professional staff, the organizations have well-established structures to support upward employee growth to the deserving team, and the companies strive to learn on how to carry out processes better. The study also found that the firms have the right working conditions that support all operations and the organization’s employee’s productivity and staff development have improved. The findings supports the study conducted by Aosa (2000) who noted that strategic management as a process involves specifying a organizations’s productivity, developing policies and plans to achieve these objectives and allocating resources so as to implement the plans. The KIIs indicated that the organization’s employee productivity and staff development has improved. Therefore, maintaining professional development and ensuring that employees had a say in the organizations could aid in developing the strategic goal of the firm. Chandler (2002) stated that Strategic management thus helps an organizations in utilization of its resources so as to give value to customers and in so doing achieve its objectives.

CHAPTER FIVE: SUMMARY, CONCLUSION, AND RECOMMENDATIONS

5.1 Introduction

The objective of this study was to establish the influence of stakeholder involvement strategy on the performance of government funded energy firms in Kenya. This chapter focused on the summary of research findings, conclusions, recommendations and suggestion for further research.

5.2 Summary of the Findings

The study found that the organizations have come up with ways of educating them on the importance of their support to the firm. The study also established that the stakeholders had played an indispensable role in educating and informing stakeholders of organization's progress and performance. The organizations also encourage participation of stakeholders in meeting with top management and decision making. The employees and other stakeholders play an imperative role in managing the organization's performance. The decision making techniques have an influence on the organizations performance. This shows that the stakeholder's participation in the strategic management had an influence on the organizations productivity through the decisions made at the meeting.

The study also established that customer's feedback on the perceived value of a firm's products is always sought to tailor its usefulness to the customer need. In addition the study found that customer's input on the product pricing is always incorporated in the organizations decisions. The study found that customer accessibility to the organization's products is an important variable that the organizations consider during the distribution of the services and products, as well as the firms endeavor to offer eco-friendly products , are environmentally responsible and that the quality of the products meet their expectation. Thus the companies have adopted the most effective ways of involving the stakeholders including requesting for customer’s feedback.

The study found that the salary and benefits paid to their employee’s measure to the market rate. The study also established that the firms consider dealings with members of staff as part of the CSR and the secure working environment is deemed to be fair to employees. The study also established that the firms reward individual employee’s job characteristic and skill variety in a manner that commensurate with their expertise and have policies relating to work-life.

The study established that the organizations have a clear and transparent ordering procedure that apply equally to all suppliers, and that the organizations and suppliers relationship is made with a long-term view and considers the price received from the suppliers to be fair to the organizations. The study also found that the organizations pay its suppliers within the set period and their relationship with the suppliers facilitates a follow-up and cross-selling of products and services.

The study found that that the organizations preserve a good number of job opportunities to the local community that the organizations have operations in and that the firms pay regulatory taxes and permits to the authorities. The study also established that the organizations support infrastructure, such as schools, and hospitals, required in the local community that organizations operate in and have policies that guide them in dealing with externalities linked to business such as noise or air pollution.

The study found that stakeholders are only heard before policies and decisions are made, but their say may not be considered. The study also found that stakeholders have a controlling influence on the strategies and projects of the organizations, they have a chance to assess the strategy formulation process and that stakeholders evaluate and review the ideas during strategy formulation. The study also established that there is joint decision making with stakeholders during all stages of strategy formulation and stakeholders have vast control over the organization's control. This means that the organizations could adopt different strategies to make sure that all stakeholders participate in the implementation of the strategy.

The study also found that the organizations have better ROA than the industry average, the organizations have an improvement of ROE in the last five years and organizations have better ROE than industry average. The study also found that the organization's financial investment and advancement have increased. It was established that organizations use cost control systems in monitoring performance and carrying out operational efficiency with improvement as a result of process re-engineering and innovation.

5.3. Conclusion

The study concluded that customer's feedback on the perceived value of a firm's products is always sought to tailor its usefulness to the customer need. In addition the study found that customer's input on the product pricing is always incorporated in the organizations decisions. The study concluded that customer accessibility to the organization's products and services is an important variable that the organizations consider during their distribution. The firms also endeavor to offer eco-friendly products and services that are environmentally responsible their quality meet stakeholder's expectation. Thus the companies have adopted the most effective ways of involving the stakeholders including asking for customer's feedback.

The study concluded that the organizations have a clear and transparent ordering procedure that apply equally to all suppliers, and that the organizations and suppliers relationship is made with a long-term view and consider the price received from the suppliers to be fair to the organizations. The study also concluded that the organizations pay their suppliers within the set period and their relationship with the suppliers facilitates a follow-up and cross-selling of products and services

The study concluded that stakeholders are only heard before policies and decisions are made, but their say may not be considered. The study also concluded that stakeholders have a controlling influence on the strategies and projects of the organizations, they have a chance to assess the strategy formulation process and that stakeholders evaluate and review the ideas during strategy formulation. The study also concluded that there is joint decision making with stakeholders during all stages of strategy formulation and stakeholders have vast control over the organization's control. This means that the organizations could adopt different strategies to make sure that all stakeholders participate in the implementation of the strategy.

5.4. Study Recommendations

The study recommends the following;

The management of government-funded state corporations should consider involving more stakeholders in the strategy development process. It is necessary as wider views and opinions can be obtained from a variety of interested parties. Because government-funded firms serve the interests of the wider society, extensive consultations are vital in formulating strategies which will be in line with the stakeholders' welfare.

The study also recommends that the government of Kenya as the vital stakeholder should consider privatizing these firms to make them more efficient and more competitive in the economy. This will improve the quality of their services and even make them more accountable for their actions rather than hiding under a cloud of government bureaucratic procedures. The process of privatization should also be consultative.

5.5. Limitations of the Study

The current research targeted line managers of the energy firms in Kenya to participate in the study. One limitation was that some of the managers failed to disclose information requested terming it sensitive. This limitation was overcome by convincing them that the information was not to be divulged to any other party other than for academic purposes. Another limitation was that the research was expensive to conduct in terms of resources. It was expensive to collect data since it entailed travelling to the offices of the respondents for information. It required patience to collect the data due to the busy schedule of the respondents.

5.6. Recommendation for Further Research

The current study was carried out on government-funded energy firms in Kenya. The findings can be verified by conducting the same research on all parastatals. Conducting another research on other government-funded firms will help identify if other firms involve stakeholders in strategy development.

The study focused on the performance of the firms. The scope of the study could also be extended to cover other strategic aspects of the government funded firms.

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APPENDICES

APPENDIX I: INTERVIEW GUIDE

SECTION A: GENERAL INFORMATION AND BIODATA

1. Which is your department? .... ……………………………………………

2. What is your current designation? ....

3. For how long have you been working at the organization?

a) Less than 5 years [ ] b) 5-10 years [ ] c) Over 10 years [ ]

Section B: General Information on Stakeholder Involvement in the Organization

4. Does your organization have a policy that governs stakeholder during strategic planning?

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5. What actions are being implemented currently in the organization to enhance stakeholder involvement in your strategic process?

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6. Describe the role you play in the enhancement of stakeholder involvement in the organization

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Section C: Stakeholder Involvement

7. Describe the relationship between the customers, employees, suppliers, and community with the various stakeholder and how it influences the organization performance

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8. Describe the nature of employee involvement in the formulation of decisions in the organization

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9. Explain how supplier involvement and community involvement help improve the organization performance

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10. Describe the stages/levels of stakeholder involvement during strategy formulation in the organization

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11. What other ways does your organization involve stakeholders in the strategy formulation?

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Section D: Organizational Performance

12. Explain how the organization has performed in the last five years basing your arguments on return on assets and the return on investment

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13. Describe how customer perspective, and professional development has helped improve organization performance

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THANK YOU SO MUCH FOR YOUR TIME.

APPENDIX II: GOVERNMENT FUNDED ENERGY FIRMS IN KENYA

1. Kenya Pipeline Organizations

2. Kenya Power

3. Kenya Electricity Generating Organizations

4. Rural Electrification Authority

5. Energy Regulatory Commission

6. Geothermal Development Organizations

7. Kenya Electricity Transmission Organizations

8. Kenya nuclear electricity Board

9. Kenya National Oil