

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

JOHN NDWIGA NJIRU

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT
OF REQUIREMENT FOR THE AWARD OF THE DEGREE OF
MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF
BUSINESS, UNIVERSITY OF NAIROBI**

2014

DECLARATION

I declare that this is my original work and has not been presented in any other University or College for Examination or Academic purposes.

Signature: _____

Date: _____

JOHN NDWIGA NJIRU

REG NO: D61/77011/2012

This project has been submitted for examination with my approval as University supervisor.

Signature: _____

Date: _____

WINNIE NYAMUTE

Lecturer,

Department of Finance and Accounting,

School of Business,

University of Nairobi.

DEDICATION

I dedicate this project to my family and the School of Business at the University of Nairobi for being supportive throughout my study. I have acquired a wealth of knowledge during my time at the University.

ACKNOWLEDGEMENTS

I am indebted to many individual for their support and contributions towards the successful and timely completion of this research work.

First, I wish to thank you The Almighty God for immeasurable gift, talent, good health and courage.

Secondly, my deep appreciation goes to my supervisor, Madam Winnie Nyamute for her professional support, guidance, encouragement and commitment that made it possible for me to complete the research paper in good time.

Thirdly, to the Chairman, Department of Finance and Accounting Mr. Henrick Ondigo for his comments and innumerable suggestions that ensured quality of the work.

Forth, due acknowledgement goes to my wife Lucy Ndwiga, my daughter Audrey Ndwiga and my son Andrea Ndwiga for their support and encouragement from the start of my studies and have remained so to date.

Lastly, my heartfelt appreciation also goes to my dear parents whose encouragement and moral support left me stronger every day in the entire duration of my studies.

ABSTRACT

There is a growing recognition of the importance of organizational structure in aligning the success and financial performance of any organization. The main purpose of this study was to determine effect of organizational structure on financial performance of commercial state corporations in Kenya. Specifically it focused on the effect of organizational size of on the financial performance of commercial state corporations; effects of structure formalization to financial performance; the extent structure complexity affect financial performance of commercial state corporations; and the extent structure centralization affect financial performance of commercial state corporations in Kenya. The findings of this study were to provide the necessary information to commercial state corporations and enhance its endeavor to meet both current and long-term demands. The study employed a survey research design and targeted all the 34 purely commercial state corporations in Kenya. The study used both structured / closed ended and unstructured / open ended questionnaires to collect data. Both qualitative and quantitative data was analyzed. Inferential statistics was employed whereby correlation and multiple linear regressions were used to establish a relation between and among the studied variables. A Statistical Package for Social Sciences (SPSS) was used to analyze data. From the study findings, the regression results revealed that there is a positive relationship between dependent variable return on assets (ROA) and independent variables; Organizational size, structure formalization, structure centralization and structure complexity. The results indicated that one unit change in organizational size results in 0.971 units increase in financial performance, one unit increase in structure formalization results in 0.739 units increase in financial performance, one unit change in the structure centralization results in 1.271 increase in financial performance and one unit change in structure complexity results in 0.835 units increases in institution's financial performance. F-tests and t-tests of significance were carried out at 95% confidence level ($\alpha = 0.05$). The results indicated F-tests of 0.678 with a significance value of 0.000, t-tests of; organizational size of 2.021 with a significance value of 0.045, structure formalization of 1.157 with a significance value of 0.210, structure complexity of 1.194 with a significance value of 0.234 and structure centralization of 2.617 with a significance value of 0.095. In this case, all the four variables were important and have strong positive relationships. The conclusion from the study findings was that organization structure affected the financial performance of commercial state corporations. It is thus recommended that organizational size, structure formalization, structure complexity and structure centralization should be considered to be very important when corporation's management is developing their organizational structure that will achieve their strategic objectives since it has effect on financial performance of the corporations. Board members, their size and composition should also be considered as they are actively involved in shaping commercial state corporations' strategic directions.

TABLE OF CONTENTS

| | |
|--|-------------|
| DECLARATION..... | ii |
| DEDICATION..... | iii |
| ACKNOWLEDGEMENTS | iv |
| ABSTRACT..... | v |
| LIST OF TABLES | viii |
| LIST OF FIGURES | ix |
| LIST OF ABBREVIATIONS | x |
| CHAPTER ONE | 1 |
| INTRODUCTION..... | 1 |
| 1.1 Background to the Study..... | 1 |
| 1.2 Statement of the Problem..... | 8 |
| 1.3 Research Objectives..... | 10 |
| 1.4 Value of the Study | 10 |
| CHAPTER TWO | 13 |
| LITERATURE REVIEW | 13 |
| 2.1 Introduction..... | 13 |
| 2.2 Theoretical Review | 13 |
| 2.3 Empirical Review..... | 16 |
| 2.5 Summary of Literature Review and Research Gap..... | 19 |
| CHAPTER THREE | 21 |
| RESEARCH METHODOLOGY | 21 |
| 3.1 Introduction..... | 21 |
| 3.2 Research Design..... | 21 |
| 3.3 Population and Sample | 22 |
| 3.4 Data Collection | 22 |
| 3.5 Data Analysis | 24 |

| | |
|--|-----------|
| CHAPTER FOUR..... | 27 |
| DATA ANALYSIS, RESULTS AND DISCUSSION..... | 27 |
| 4.1 Introduction..... | 27 |
| 4.2 Response Rate..... | 27 |
| 4.3 Descriptive Statistic | 28 |
| 4.4 Correlation Analysis | 33 |
| 4.5 Regression Analysis..... | 34 |
| 4.6 Summary and Interpretation of Findings | 37 |
| CHAPTER FIVE | 40 |
| SUMMARY, CONCLUSIONS AND RECOMMENDATIONS | 40 |
| 5.1 Introduction..... | 40 |
| 5.2 Summary of the Findings and Discussions..... | 40 |
| 5.3 Conclusions..... | 40 |
| 5.4 Limitations of the Study..... | 41 |
| 5.5 Recommendations..... | 42 |
| REFERENCES..... | 45 |
| APPENDICES | 49 |
| Appendix I: Cover Letter | 49 |
| Appendix II: Questionnaire..... | 50 |
| Appendix III: Data Collection Form..... | 53 |
| Appendix IV: Data Collection Form..... | 54 |
| Appendix V: List of Kenyan Commercial State Corporations | 55 |
| Appendix VI: Factors Affecting Financial Performance | 57 |

LIST OF TABLES

| | |
|---|----|
| Table 4.1: Structure Formalization | 31 |
| Table 4.2: Structure Complexity..... | 31 |
| Table 4.3: Structure Centralization..... | 32 |
| Table 4.4: Correlation Coefficient of Financial Performance. | 33 |
| Table 4.5: Model Summary | 34 |
| Table 4.6: ANOVA (Analysis of Variance) | 35 |
| Table 4.7: Regression Coefficients Results | 36 |

LIST OF FIGURES

| | |
|--|----|
| Figure1:Response..... | 27 |
| Figure 2: Gender of the Respondents..... | 28 |
| Figure 3: Age Bracket of the Respondents | 29 |
| Figure 4: Level of Education of the Respondents..... | 30 |

LIST OF ABBREVIATIONS

| | |
|---------|---|
| FRC | - Financial Reporting Council |
| CPA (K) | - Certified Public Accountant of Kenya |
| CEO | - Chief Executive Officer |
| SPSS | - Statistical Package for Social Sciences |

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Slevin (2007) highlight organizational structure as a critical antecedent to financial performance. These authors indicate that in order to be capable of adequately responding to changes in dynamic environments, organizations often decentralize decision-making authority, have minimal hierarchical levels or structural layers and adopt Free-flow communication channels. These attributes permit flexibility and rapid decision making and thus make a positive impact on an organization's opportunity seeking financial performance.

The context of organization financial performance as attributed by its structures depicts two dimensions, namely self-management and interdependence, for they both inherent organization complexity, prescription, centralization/decentralization which are three elements of organizational structure. Moreover, two important elements of organization structure, namely interdependence and self-management as a way for knowledge creation and transmission have strong linkage and interaction among various sections/departments. Thus Wang (2003) proposed that the organizational structures are more inclined to exert influences on trust and interactions within the organization.

Conceptually, the construct of organizational structure variables against an ultimately on performance in commercial state corporations only deliver better performance if there is a willing to move away from centralized systems that involve higher levels of formality to organizational systems that facilitate higher levels of discretion, Campion (2008). Cohen (2009) hold the similar opinion that interdependence and self-management are the fundamentals of organization's task design, and exert influences on organization effects by means of such interactions as conflicts and communication. Simons (2009), on the other hand, cautions against the attempts to decentralize the decision-making structures in the organizations. This author argues that decentralizing decision making can often lead to a loss of control of employees at the lower levels of organizational hierarchy, resulting in dysfunctional behavior and thus inefficient use of organizational resources.

1.1.1 Organizational Structure

Viewed as the way responsibility and power are allocated inside the organization and work procedures are carried out by organizational members, organizational structure is the organization's internal pattern of relationships, authority, and communication. Similarly, Goldhaber (2008) define organizational structure as "the network of relationships and roles existing throughout the organization". Specific working relationship among people and their jobs to efficiently and effectively achieve that purpose. Further, the structure is important as it helps people to understand their position and role in the organization's processes, who they work with, who works with them, to do the company's work (Fowler, 1995).

The central constructs in this research are four dimensions of organizational structure. The first and second organizational structure variables are layers in the hierarchy and the locus of decision-making. The number of layers in hierarchy is the degree to which an organization has many versus few levels in a chain of command. The more layers in a firm will produce a more complex organizational structure. And, decisions that must be pushed through excessive layers take longer and are often made by people not directly in the trenches. The recent trend towards flatter organizations is a tacit acknowledgment that complexity will influence the flexibility, and can frustrate an organization's ability to compete in time-based environment, (Bounds, 2009).

The locus of decision-making refers to the vertical locus of decision-making authority in the firm. The importance of lower locus of decision-making has been highlighted in recent years by the emphasis on employee empowerment or autonomy in both the academic and practitioner literatures. Reducing layers and empowering low level employees to make the decisions formerly made by hierarchies are often done together. The other organizational structure variable is the nature of formalization which refers to the degree to provide employees with rules and procedures that deprive but not encourage creative, autonomous work and learning activity, (Dobbins, 2011).

1.1.2 Financial Performance

Financial performance is the level of performance of a business over a specified period of time, expressed in terms of overall profits and losses during that time. Evaluating the financial performance of a business allows decision-makers to judge the results of

business strategies and activities in objective monetary terms. One of the most fundamental facts about businesses is that the operating performance of the firm shapes its financial structure. It is true that the financial situation of the firm can also determine its operating performance. The subject of financial performance has received significant attention from scholars in the various areas of business and strategic management. It has also been the primary concern of business practitioners in all types of organizations since financial performance has implications to organization's health and ultimately its survival. High performance reflects management effectiveness and efficiency in making use of company's resources and this in turn contributes to a country's economy at large (Naser and Mokhtar, 2004).

There have been various measures of financial performance. For example return on sales reveals how much a company earns in relation to its sales, return on assets determines an organization's ability to make use of its assets and return on equity reveals what return investors take for their investments. The advantages of financial measures are the easiness of calculation and that definitions are agreed worldwide. Traditionally, the success of a manufacturing system or company has been evaluated by the use of financial measures (Tangen, 2003). Liquidity measures the ability of the business to meet financial obligations as they come due, without disrupting the normal, on-going operations of the business.

Liquidity can be analyzed both structurally and operationally. Structural liquidity refers to balance sheet measures of the relationships between assets and liabilities and operational liquidity refers to cash flow measures. Solvency measures the amount of borrowed capital used by the business relative the amount of owner's equity capital invested in the business. In other words, solvency measures provide an indication of the business' ability to repay all indebtedness if all of the assets were sold. Solvency measures also provide an indication of the business' ability to withstand risks by providing information about the operation's ability to continue operating after a major financial adversity (Harrington and Wilson, 1989).

Profitability measures the extent to which a business generates a profit from the factors of production: labor, management and capital. Profitability analysis focuses on the relationship between revenues and expenses and on the level of profits relative to the size of investment in the business. Four useful measures of profitability are the rate of return on assets (ROA), the rate of return on equity (ROE), operating profit margin and net income (Hansen and Mowen, 2005). Repayment capacity measures the ability to repay debt from both operation and non-operation income. It evaluates the capacity of the business to service additional debt or to invest in additional capital after meeting all other cash commitments. Measures of repayment capacity are developed around an accrual net income figure. The short-term ability to generate a positive cash flow margin does not guarantee long-term survivability (Jelic and Briston, 2007).

Financial efficiency measures the degree of efficiency in using labor, management and capital. Efficiency analysis deals with the relationships between inputs and outputs. Because inputs can be measured in both physical and financial terms, a large number of efficiency measures in addition to financial measures are usually possible (Tangen, 2003).

1.1.3 Effect of Organizational Structure and Financial Performance

Most organizations that have made an attempt to move toward process orientation agree that it does indeed provide numerous benefits, including cost savings through a more efficient execution of work, improved customer focus, better integration across the organization, etc. Main advantages of organizational structure, in comparison to functional one, are in economical design of business processes, as well as in reducing cycle time (Sikavica& Novak, 1999), while there is also a dramatically increased flexibility of the firm along with improved customer satisfaction. Namely, even though processes don't appear on the balance sheet as such, managers intuitively recognize that they are assets, not expenses (Keen, 1997).

A key source of process benefit is improving hand-offs between functions, which can occur only when processes are broadly defined (Oden, 1999). A process orientation leads to cycle time reduction by doing a good job of coordinating work across functions. In addition, some costs are reduced with a process organization. The faster time cycles mean reduced inventories and faster receipt of cash. The reduced working capital translates into

reduced costs of carrying inventory and cash. Other costs are reduced because duplication of work across functions is eliminated. A process organization eliminates such redundant activities, verifying input once for all functions (Galbraith, 2002).

Implementing structures as a way of organizing and operating in an organization will improve internal coordination and break down the functional silos that exist in most companies. Research has shown that this increase in cooperation and decrease in conflict improve both short- and long-term performance of an organization (McCormack, Johnson and Walker, 2003). Furthermore, the more business process oriented an organization is, the better it performs both from an overall perspective as well as from the perspective of the employees.

1.1.4 Commercial State Corporations in Kenya

State corporations (also government parastatals or public corporations) are quasi government agencies linked to government ministries or departments. Kenyan parastatals are classified into three categories namely class A, class B and class C parastatals. The categories are based on the revenue base, size and the ministry the parastatals falls under. Parastatals are further classified in terms of industries they belong to. The sectors include: Financial sector, commercial/manufacturing sector, regulatory sector, public universities, training and research, service corporations, regional development authorities, and finally tertiary education and training, Office of the Prime Minister (DPM, 2006).

The establishment of parastatals was driven by a national desire to: accelerate economic and social development; redress regional and economic imbalances; increase Kenyan citizens' participation in the economy; promote indigenous entrepreneurship; promote foreign direct investments through joint ventures (Sessional Paper No. 10 of 1965). Comprehensive reviews on Public Enterprise Performance were carried in 1979 (the Report on the Review of Statutory Boards), and 1982 (the Report of the Working Party on Government Expenditures).

The review in 1979 concluded that: growth in the parastatals sector was not accompanied by development in efficient systems; there was clear evidence of prolonged inefficiency, financial mismanagement, waste and malpractices in many parastatals; many of the parastatals had moved away from their primary functions, especially the regulatory boards most of which had translated their regulatory role into executive one, resulting in waste and confusion; and there was danger of over-politicizing production and distribution through establishment of too many parastatals, (DPM, 2002).

1.2 Statement of the Problem

There is a growing recognition of the importance of organizational structure in aligning the success and financial performance of any organization. Organizational structure of commercially owned State corporations must therefore be aligned to achieve organizational goals and objectives. Individual work needs to be coordinated and managed. Organizations therefore can function within a number of different structures, each possessing distinct advantages and disadvantages (DPM, 2002).

Various empirical studies indicate that better organizational structure guarantee the payback to the customers and limit the risk of the investment. The association between quality of organizational structure and firms' profitability is a main focus in governance studies, but one cannot predict much on the direction due to contrasting views on the results, Jensen and Meckling (1976). Klapper and Love (2003) used return on assets as measure for performance found evidence that firms with better governance have higher operating performance. A well-functioning organizational structure is an indication of the overall effectiveness of operational system. Organizational structure has been largely criticized for the decline in service provision and financial performance (Uadiale, 2010). Locally, studies on the relationship between organizational structure and firm performance remain inconclusive and contradictory. Ngetich (2005) carried out a study to establish the relationship between, ownership structure, governance structure and performance among the Firms Listed with the Nairobi Stock Exchange. Some of the empirical evidence that supports a negative relationship between firm performance and organizational structure are from studies undertaken by Waiyaki (2006), Ndeto (2007), and Chacha (2005). These studies reported that small size are associated with higher market evaluations, returns on assets (ROA), and returns on sales (ROS), he highlighted that the scale and nature of that impact is actually dependent on the size of a company, and may become different as a structure becomes too large.

This study extends and contributes to the body of research using Kenyan data to investigate the likely impact of organizational structure on financial performance of Commercial State Corporations in Kenya. The study sought to provide answers to the

questions: how does organizational size affect financial performance? What is the relationship between the number of structure formalization and financial performance? What is the relationship between complexity and financial performance and how does the structure centralization affect financial performance?

1.3 Research Objectives

1.3.1 General objective

To establish the effect of organizational structure on financial performance of commercial state corporations in Kenya.

1.3.2 Specific objective

- i. To establish the effect of organizational size of on the financial performance of commercial state corporations in Kenya.
- ii. To determine effects of structure formalization to financial performance of commercial state corporations in Kenya.
- iii. To determine the extent structure complexity affect financial performance of commercial state corporations in Kenya.
- iv. To assess the extent structure centralization affect financial performance of commercial state corporations in Kenya.

1.4 Value of the Study

This study is intended to interrogate the effect of organizational structure on financial performance of commercial state corporations in Kenya. The findings of this study will

provide the necessary information to commercial state corporations and enhance its endeavor to meet both current and long-term demands. In this regard the study would be beneficial to the following set of entities:

The policy makers within Government would obtain invaluable information and knowledge of the commercial state corporations' dynamics and the responses that are appropriate; they will therefore obtain guidance from this study in the financial performance of commercial state corporations in Kenya. Using the weaknesses unveiled in this study, the government could use the results to avoid pitfalls that have befallen the commercial state corporations in the country and strengthen its regulatory framework.

The study will provide information that will help the top level management to assert whether organizational structure is a necessary management tool and the benefits therein. The management would therefore identify how various aspects of organizational structures practices affect the operations of the commercial state corporations as well as determine the extent to which this and other factors affect operations of other state corporations in Kenya.

Future researchers and scholars will find this study an invaluable source of reference. The study would provide information to potential and current scholars with regard to the relationship between organizational structure and financial performance of commercial state corporations. In addition, researchers would be able to gain additional knowledge from the study given that it is focusing on commercial state corporations with a public leaning orientation.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of literature. It discusses theoretical review on organizational structure. It also discusses the empirical literature that has been done on the topic, gaps established and finally presents the chapter summary.

2.2 Theoretical Review

Various theories explain the interconnected ideas that condense the effect of organizational structure on financial performance. Among these are the agency theory, the stakeholder theory and stewardship theory, (Mulili & wong, 2010).

2.2.1 Agency Theory

Agency theory explains how best the relationship between agents and principals can be utilized with a view to attaining corporate goals. In this kind of relationship principals and agents have clearly defined responsibilities where shareholders expect the agents to act and make decisions in the principal's interest. On the contrary, the agent may not necessarily make decisions in the best interests of the principals (Padilia, 2002) the agent may succumb to self-interest, opportunistic behavior and falling short of balancing between the aspirations of the principal and the agent's pursuits. In such a principal-agent relationship, there is always the potential for conflicts within a firm due to economic incentives faced by the agents who are often different from those faced by the

principals, ((ISDA, April 2002).

According to ((ISDA, April 2002) all companies are exposed to agency problems, and to some extent develop action plans to deal with them. Although steeped in certain setbacks, agency theory was introduced basically as a separation of ownership and control (Bhimani, 2008). The agents are controlled by principal-made rules, with the aim of maximizing shareholders value hence, a more individualistic view is applied in this theory (Clarke, 2007). Indeed, agency theory can be employed to explore the relationship between the ownership and management structure. However, where there is a separation, the agency model can be applied to align the goals of the management with that of the owners. A basic conclusion of agency theory is that the value of a firm cannot be maximized as managers normally hold the executive power which allows them to expropriate value for their own interest (Tumbull, 2007). Irrespective of this claim, agency theory provides a broad analytical framework to examine how successful organizational structure can curb opportunistic managerial behaviour, securing a fair return on investment for the suppliers of finance.

2.2.2 Stakeholder Theory

Stakeholder theory can be defined as any group or individual who can affect or is affected by the achievement of the organization's objectives. Stakeholders theorists suggest that managers in organizations have a network of relationships to serve this include the suppliers, employees and business partners. And it was argued that this group

of network is important other than owner-manager-employee relationship as in agency theory. On the other end, (Inkpen & Sundaram, 2004) contend that stakeholder theory attempts to address the group of stakeholders deserving and requiring management's attention.

Current organizational structure arrangements vest excessive power in the hands of management who may abuse it to serve their own interest at the expense of shareholders and society as a whole (Welsbach & Hermalin, 2003). Supporters of such views argue that the current institutional restraints on managerial behaviour, such as non-executive directors, the audit process, the threat of takeover, are simply inadequate to prevent managers abusing corporate power. Shareholders protected by liquid asset markets are uninterested in all but the most substantial of abuses (Freeman, Colbert, & Wheeler, 2003) argued that stakeholder theory was derived from a combination of the sociological and organizational disciplines. In the premise of stakeholder theory, organizational structure can be viewed as control mechanisms designed for the efficient operation of a corporation on behalf of its stakeholders.

The control mechanisms themselves are necessitated by separation of ownership from control, which is common to any market economy. John & Senbet (2003) view organizational structure as a means by which various stakeholders apply control over a corporation by exercising certain rights, which are established in the existing legal and regulatory frameworks as well as corporate bylaws. Thus stakeholder theory could be

reconciled with the agency theory by broadening the classical agency relationship between managers and owners to incorporate the relationships between managers and all stakeholders.

2.2.3 Stewardship Theory

Stewardship theory assumes that managers are not opportunistic agents, but good stewards of corporations who diligently work towards owners' interests by securing high level of corporate profits and shareholders' returns (Donaldson, 2002) hence, stewardship theory differs from agency theory with respect to the motive of managers. According to (Gay, 2002) stewardship theory is also derived from the economic model of human behavior, classified by McGregor as Theory Y, which assumes that people are inherently motivated to work and perform a good job. Therefore, stewardship theory purports there is no conflict between managers and owners, and the optimum organizational structure allows coordination of the companies to perform most effectively towards the betterment of the owners' interest.

2.3 Empirical Review

Various empirical literatures have extensively explored the linkage between organizational structure, its many component and financial performance. Montanari (1978) stated that organization size, technology, or environment was proposed as the single most important determinant of organization structure. Burt, Gabbay, Holt, and Moran (1994) studied corporate culture and firm performance. They viewed culture as a

control mechanism in Malaysian listed firms. In order to do this, a firm needs to have a strong corporate culture that able to clarify a firm's goals and practices.

They discovered that economic performance can be enhanced by a strong corporate culture, economic success results in a strong corporate culture, culture and performance determined each other, and correlation between performance and culture strength is spurious. Parker, Peters and Turetsky (2002), investigated the influence of various attributes of organizational structure and financial survival of 176 financially stressed firms of the Caribbean nations from 1988-1996 using regression analysis.

Their study findings established that firms that replaced their CEO with an outside director were more than twice as likely to experience bankruptcy larger levels of insider ownership are positively associated with the likelihood of firm survival. Robbins (2003) discussed ways many of those parts are related to one another and therefore affect organizational structure. A complex structure has a greater need for communication across many departments horizontally or between many levels vertically. The more complex an organization is, the greater the need for effective communication, coordination and control (Robbins, 2003).

Locally, scholarly literature divides formalization as high versus low, where a high level of formalization is related to a mechanistic structure and a low level of formalization is related to a flexible organic structure. The fourth variable is the level of process-based. Onyango (2000) undertook a study on the relationship between ownership structure value of firms listed at the Nairobi Stock Exchange and arrive to a conclusion that the

relationship between the value of the firm and insider. From the analysis he concluded that the value of the firm increased when insider ownership ranged between 0% and 37% while firm value again increased when the ownership level is more than 50%.

Barako et al (2007) study provides longitudinal examination of voluntary disclosure practices in the annual reports of listed companies in Kenya from 1992 to 2001. Their study investigates the extent to which organizational structure attributes, ownership structure and company characteristics influence voluntary disclosure of various types of information. Due to the panel nature of their data, to estimate the determinants of voluntary disclosure of various types of information, they use pooled Ordinary Least Square (OLS) with Panel-Corrected Standard Errors (PCSEs). The results indicate that, disclosures of all types of information are influenced by organizational structure attributes, ownership structure and corporate characteristics. In particular, the results also suggest that size and companies in the agricultural sector are significantly associated with the voluntary disclosure of all four types of information disclosures.

Ngumi (2008) looked at the survey of the Organizational structure practices in the Housing Finance Company (HFCK) and concluded that good corporate practices are the best for the banking industry. Whereby he come to the clear conclusion that bank and is the level of commitment will ensure that its business and operations are conducted with high integrity and compliance with the law and the accepted practices in accounting.

Kiamba (2008) study the effects of Organizational structure on the financial performance of local authorities in Kenya. The study found that financial performance of the local

authorities was influenced by political composition in the respective councils and manner in which internal audits are conducted and the managerial approaches applied by the council's chiefs.

Muriithi (2008) documented Organizational structure and Financial performance of state corporations, the case of the New KCC and drawn a conclusion that better Organizational structure will improve financial performance in that respect he identified the following Organizational structure practices; appointment and leadership of the board structure of the organization, purpose and values, balance of power in the board, corporate communication and the assessment of performance of board and its responsibilities.

Ongore (2008) carried out a research on the effects of ownership structure, Board effectiveness and managerial discretion on performance of listed companies in Kenya where the following conclusion was drawn from this study that; ownership concentration is inimical to a manager creativity and innovation and curtails firm performance, also increase in government shareholding of a firm results in negative performance.

2.5 Summary of Literature Review and Research Gap

A number of studies have sought to investigate the relationship between organizational structure and financial performance with most studies focusing on companies listed on stock exchange and the banking industry. Hardly do these studies clearly demonstrate the relationship between organizational structure and financial performance of commercial state corporations in Kenya and the accruing benefits. This research therefore aims to find

out the effect of organizational structure on financial performance of commercial state corporations in Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter was organized into four parts. Section 3.2 discusses the research design that was adopted in this study justifying its choice for the study, section 3.3 deals with population and sample clearly describing the population of the study by understanding what the unit of analysis is in the study and explaining how the sample was drawn from the population to ensure that it was representative of the study population and also states and justify the sampling technique and the sampling period.

Section 3.4 deals with data and data collection instruments by stating the type of data the study used, describing clearly how the data was measured; provide a justification where the variables were measured in an unconventional manner and describe well the instruments that was used to collect the data. Section 3.5 deals with the two parts of data analysis i.e. conceptual model and analytical model by clearly explaining how the variables were measured and stating the expected theoretical relationships between the dependent and the independent variables. Relevant statistical tests, how the decision is reached and at what level of statistical significance is also discussed.

3.2 Research Design

A survey research design was used. According to Mbwesa (2006), a survey research involves collection of data from a population in order to determine the current status of

that population with respect to one or more variables. A survey study sought to identify some aspects of the population such as opinions, attitudes, believes or even knowledge of a particular phenomena.

This research design was chosen because similar studies have always used the design such as that conducted by Oriwo (2010) to study the regulatory measures by the government of Kenya in enhancing organizational structure in Kenyan state corporations. The respondents were at least one senior manager of each target commercial state corporation.

3.3 Population and Sample

A population is the ‘aggregate of all cases that conform to some designated set of specifications’ (Paton, 2002). The population of the study was all the 34 commercial state corporations as per appendix v attached. Since the population size is not large a census survey was conducted where questionnaires was circulated to all the 34 commercial state corporations. Mugenda (2010) observe that a population is an enumeration of all the elements with the desired characteristics, making the universe of the study.

3.4 Data Collection

Data in the social sciences are either formal or informal settings and involve (oral and written) or non-verbal acts or response. Consequently this research found it advantageous to triangulate methods whenever feasible that is, the use of more than one form of data

collection to test the same research objectives. This study used both structured / closed ended and unstructured / open ended questionnaires. Unstructured / open ended questionnaires let the thoughts of respondents roam freely. We obtained ideas of respondents in their own language expressed spontaneously which are worthwhile as a basis of new hypothesis.

This took care of the qualitative part of the research, where the study sought to find out the opinions and attitude of respondents on organizational structure. The unstructured questionnaires required probing which may call for self-administered questionnaires presented by the interviewer; this method ensured high respondent rate and gives benefits of degree of personal contact (Paton, 2002). Quantitative methods adopted structured / closed ended questions. In this questionnaire the questions were accompanied by a list of all possible attentions from which respondents select the answer that best describe the situation. These questions were easy and quick to answer since there was no extended writing. The questions were economic on time and money and useful for testing research questions. The structured questionnaire was mailed to the correspondent's self-addressed envelopes and stamps accompanied the questionnaire. This saved on the costs and time (Paton, 2002).

3.4.1 Validity and Reliability of the Instrument

According to Mugenda and Mugenda (1999), the reliability of an instrument is the measure of the degree to which a research instrument yields consistent results or data after repeated trials. In order to test the reliability of the instruments that were used in the

study, a pilot study was conducted in University of Nairobi Enterprises Ltd involving four (4) respondents who were not sampled for the study to test the reliability of the instruments to be used. In this study, the reliability was improved through minimizing external sources of variation say boredom, fatigue, or poor logistics and standardizing the conditions (improving the equivalence aspect) under which the measurements was done by carefully designing the directions for measurement or measurement guide. In order to achieve content validity of the instrument, a general agreement on what constitutes adequate coverage of the problem was made by a panel of other persons. In order to achieve criterion validity of the instrument, all the team members involved in the research was given an equal chance to score well. In order to achieve construct validity of the instrument, the research team was encouraged to keep on checking for variances in the results. Subsequently, they were required to keep on asking themselves the reason for the observed variance. Test retest and half-split reliability test was carried out to ascertain the reliability.

3.5 Data Analysis

Data analysis involves data preparation where data is checked for accuracy, entered into a computer, examined critically and making inferences, Kombo and Tromp (2006). Immediately the questionnaires were received, they were checked for accuracy. This was done by checking whether the responses are legible, whether all important questions have been answered and whether the responses were complete.

3.5.1 Conceptual Model

The conceptual model took the form of:

$$Y = f(X1, X2, X3, X4) \quad (1)$$

Where;

Y = Financial performance of commercial state corporations

X1 = Organizational size

X2 = Structure formalization

X3= Structure complexity

X4= Structure centralization

3.5.2 Analytical Model

The study aimed to establish the effect of organizational structure on financial performance of commercial state corporations in Kenya. Multiple regression analysis was used. The regression equation to be tested was as follows;

$$ROA = \beta_0 + \beta_1SZ + \beta_2SF + \beta_3SC + \beta_4SCE + \varepsilon_i \quad (2)$$

Where;

ROA =Return on Assets

SZ = Organizational size

SF = Structure formalization

SC = Structure complexity

SCE = Structure centralization

β_0 = The constant term

β_1 = Coefficient of organizational size

β_2 = Coefficient of structure formalization

β_3 = Coefficient of structure complexity

β_4 = Coefficient of structure centralization

ε_i = The error term

To test the relationship between the variables (organization structure and financial performance), the study adopted both descriptive and inferential analysis. The inferential statistical procedures that were used in this study were correlation coefficient (r) and Pearsonian correlation coefficient. The tests of significance to be used are regression analysis expected to yield the coefficient of determination (R^2), analysis of variance along with the relevant t – tests, f -tests, z – tests and p – values. The choices of these techniques are guided by the variables, sample size and the research design. The inferential statistical techniques was done at 95% confidence level ($\alpha = 0.05$). The data was analyzed using the Statistical Package Social Sciences Software (SPSS). Quantitative data was used to present results in form of graphs and tables. As posted in the literature review by a number of scholars, e.g. Hirshleifer, (2006), a positive relationship is expected between the organization structure and financial performance of commercial state corporations in Kenya.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

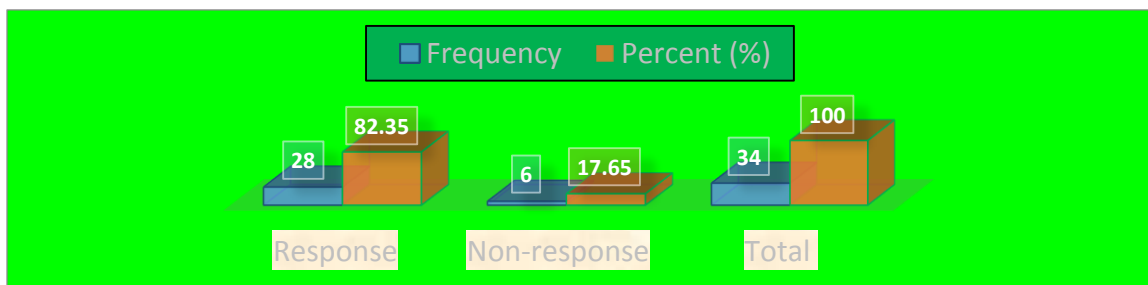
4.1 Introduction

This chapter covers data presentation and analysis. The main objective of the study was to determine the effects of organizational structure on financial performance of commercial state corporations in Kenya. In order to simplify the discussions, the researcher provided tables and figures that summarize the collective reactions and views of the respondents.

4.2 Response Rate

The targeted sample size was 34 commercial state corporations. Those that filled and returned questionnaires were 28 respondents making a response rate of 82.35%. According to Mugenda and Mugenda (1999), a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. This means that the response rate for this study was excellent and therefore enough for data analysis and interpretation.

Figure1:Response



Source: Research Findings

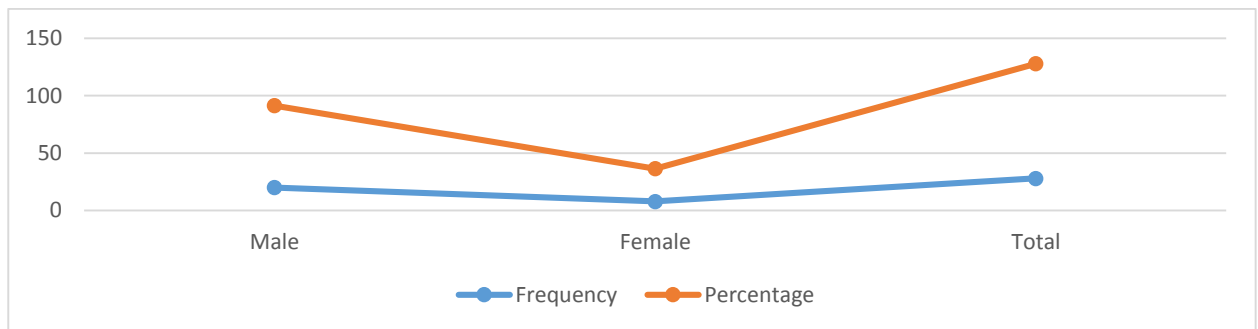
4.3 Descriptive Statistic

The study sought to establish the demographic information in order to determine whether it had influence on effect of organizational structure on financial performance of commercial state corporations in Kenya. The demographic information of the respondents included age, gender and education levels of the respondents.

Gender of Respondents

The figure below displays demographic information according to gender.

Figure 2: Gender of the Respondents



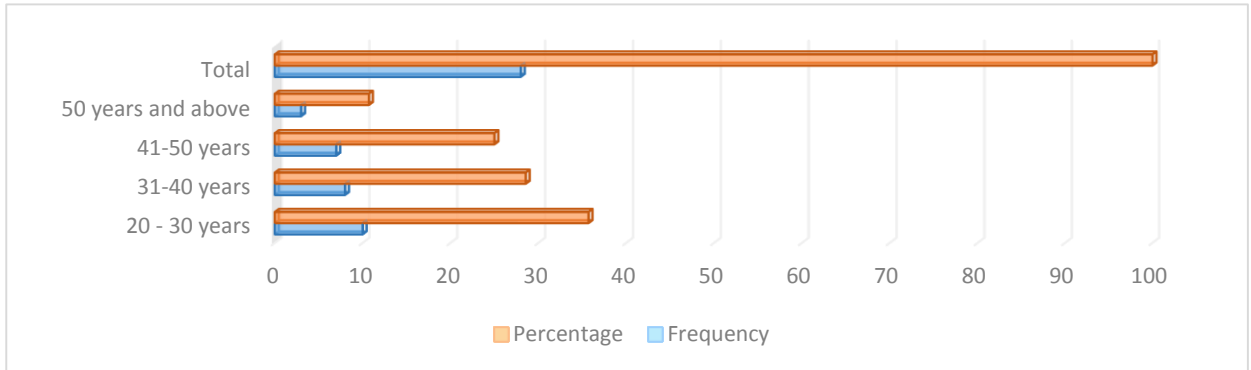
Source: Research Findings

The study found it paramount to determine the respondents' gender in order to ascertain whether there was gender parity in the positions indicated by the respondents. The findings of the study are as shown in table 4. According to the analysis it was evident that majority of the respondents were male which represented 71.43% while 28.57% were female. It can therefore be deduced that males were the most dominant gender in organizations of Kenya.

Age Bracket of the Respondents

The researcher sought to determine if the respondents were old enough to provide valuable responses that pertain to the effect of organizational structure on financial performance of commercial state corporations in Kenya.

Figure 3: Age Bracket of the Respondents



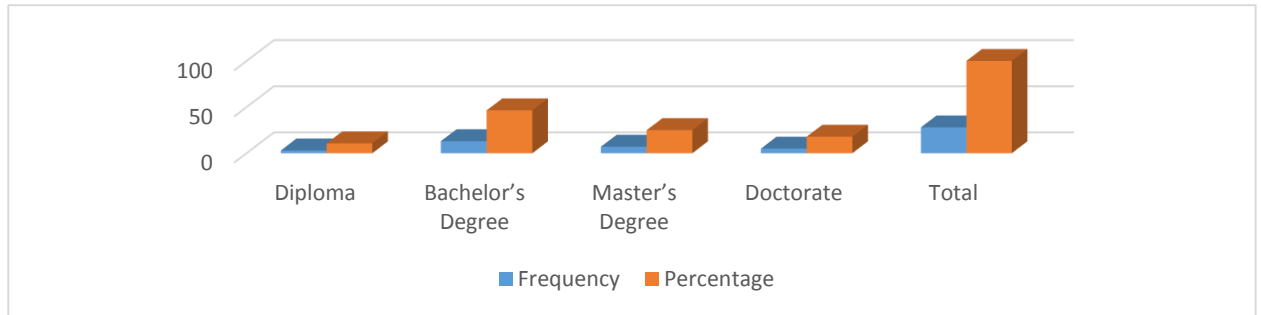
Source: Research Findings

The respondents were required to indicate their age where the study findings indicated that majority (35.71%) indicated that their age bracket was between 20 and 30 years. Analysis of findings also indicated that 28.57% of the respondents were between 31 and 40 years of age. The findings further indicated that 25.0% were 41 to 50 years and above. While the remaining 10.71% indicated that they were 50 years and above. The finding therefore implies that the respondents were old enough to provide valuable responses that pertain to the effect of organizational structure on financial performance of commercial state corporations in Kenya.

Level of Education of the Respondents

The table shows the respondents level of education.

Figure 4: Level of Education of the Respondents



Source: Research Findings

The study sought to find out the respondents level of education. The findings of the study are tabulated as in table 4.4. From the findings, majority (46.43%) had university degrees followed by 25% who indicated that they had master degree, 17.86% indicated that they had doctorates. The remaining 10.71% indicated that they had attained diplomas. Therefore the findings conclude that most respondents had adequate education to execute their pertaining to effect of organizational structure on financial performance of commercial state corporations in Kenya.

Extent to which the following factors affect financial performance

The researcher sought to find out the extent to which certain factors affect the financial performance of commercial state corporations. The findings are indicated as follows.

Table 4.1: Structure Formalization

| Structure Formalization | Mean | Std. deviation. |
|--|-------------|------------------------|
| (a) Sections/departments formal meetings/briefings are conducted on a regular basis. | 3.891 | 0.937 |
| (b) There are formal guidelines on how to deal with every operational activity/situation and the guidelines are available to staff. | 4.172 | 0.815 |
| (c) Written formal communications through established channels must be used on every engagement to be undertaken by the corporation. | 3.997 | 0.716 |
| (d) Every position in this corporation has a written job description | 4.137 | 0.798 |
| (e) There is formal orientation program for new members of staff. | 4.123 | 0.9117 |
| (f) Policies and procedures manual are readily available to all staff. | 3.879 | 0.892 |

Source: Research Findings**Table 4.2: Structure Complexity**

| Structure Complexity | Mean | Std. deviation |
|---|-------------|-----------------------|
| (a) There are few levels of hierarchy before a decision is made. | 3.517 | 0.637 |
| (b) For every corporation mandate, there is an established department/division to deal with it. | 3.978 | 0.733 |
| (c) There is more than one income generating activity/more than one mandate. | 3.451 | 0.914 |
| (d) Department/divisional decisions are approved by the head of the department/division. | 4.089 | 0.857 |

Table 4.3: Structure Centralization

| Structure Centralization | Mean | Std. deviation |
|---|-------------|-----------------------|
| (a) Sub-ordinate staffs participate in decision making on matters relating to day to day operations of the corporation. | 4.129 | 0.995 |
| (b) All investment decisions must be approved by board of directors before are undertaken the corporation. | 3.971 | 0.925 |
| (c) All operation activities to be undertaken by the corporation are approved by Chief Executive officer. | 3.578 | 0.841 |
| (d) Staffs are asked to give their input on the adoption of new policies and procedures. | 4.135 | 0.759 |
| (e) No or little action can be taken by a staff on any matter without supervisor permission. | 3.649 | 0.999 |

Source: Research Findings

The researcher found out that the four variables i.e. organizational size, structure formalization, structure complexity and structure centralization affected the financial performance of the commercial state corporations. Under structure formalization the researcher found out that department meetings were conducted on a regular basis, also there was a formal guideline on how to deal with every operational activity. The researcher also found out that policies and procedures manual are readily available to all staff. Under structure complexity, the researcher found out that the respondents agreed that there are few levels of hierarchy before a decision is made, there are established departments to deal with every corporation mandate and that there is more than one income generating activity. Lastly under structural centralization, the study finding indicate that the respondents greatly agreed that the subordinate staff participate in decision making on matters relating to day to day operations of the corporation.

4.4 Correlation Analysis

The Pearson product-moment correlation coefficient (or Pearson correlation coefficient for short) is a measure of the strength of a linear association between two variables and is denoted by r . The Pearson correlation coefficient, r , can take a range of values from +1 to -1. A value of 0 indicates that there is no association between the two variables. A value greater than 0 indicates a positive association, that is, as the value of one variable increases so does the value of the other variable.

Table 4.4: Correlation Coefficient of Financial Performance.

| | organizational size- Turnover & Number of Staff | structure formalization | structure complexity | structure centralization | Return on assets (ROA) |
|---|---|-------------------------|----------------------|--------------------------|------------------------|
| Organizational size- Turnover & Number of Staff | 1 | | | | |
| Structure formalization | 0.1135 | 1 | | | |
| Structure complexity | 0.1297 | 0.7914 | 1 | | |
| Structure centralization | 0.7612 | 0.8321 | 0.7294 | 1 | |
| Return on assets (ROA) | 0.6913 | 0.8163 | 0.7568 | 0.8679 | 1 |

Sources: Research data

The study in table 4.8, show that almost all the predictor variables were shown to have a positive association between them at a significant level of 0.05 and hence included in the analysis. There was strong positive relationship between organizational size- Turnover & Number of Staff and structure centralization (correlation coefficient 0.7612), structure formalization and structure centralization (correlation coefficient 0.8321), structure complexity and structure centralization (correlation coefficient 0.7294), return on assets (ROA) and organizational size- Turnover & Number of Staff (correlation coefficient

0.6913) and return on assets (ROA) and structure formalization (correlation coefficient 0.8163), return on assets (ROA) and structure complexity (correlation coefficient 0.7568), lastly between return on assets (ROA) and structure centralization (correlation coefficient 0.8679).

4.5 Regression Analysis

The following are the results of regression analysis.

Table 4.5: Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|--------------------|----------|-------------------|----------------------------|
| 1 | .5713 ^a | .7685 | .7681 | .42127 |

a. *Predictors:* (Constant), organizational size- Turnover & Number of Staff, structure formalization, structure centralization and structure complexity.

b. *Dependent Variable:* Return on assets (ROA)

Source: Research Findings

Analysis in table above shows that the coefficient of determination (the percentage variation in the dependent variable being explained by the changes in the independent variables) R square equals 0. 7685, that is, organizational size- Turnover & Number of Staff, structure formalization, structure centralization and structure complexity. The Analysis of Variance (ANOVA) was used to check how well the model fits the data. The results are presented in table 13.

Table 4.6: ANOVA (Analysis of Variance)

| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
|-------|------------|----------------|----|-------------|------|-------------------|
| 1 | Regression | 1.045 | 3 | .123 | .678 | .000 ^a |
| | Residual | 5.102 | 28 | .177 | | |
| | Total | 5.628 | 93 | | | |

a. *Predictors:* (organizational size- Turnover & Number of Staff, structure formalization, structure centralization and structure complexity)

b. *Dependent Variable:* Return on assets (ROA)

Source: Research Findings

The F statistic is the regression mean square (MSR) divided by the residual mean square (MSE). Since the significance value of the F statistic is small (0.000 smaller than say 0.05) then the predictors' variables i.e. the relationship between organizational size-Turnover & Number of Staff, structure formalization, structure centralization and structure complexity explain the variation in the dependent variable which is return on assets (ROA). Consequently, we accept the Hypothesis that all the population values for the regression coefficients are not 0. Contrary, if the significance value of F was larger than 0.05 then the independent variables would not explain the variation in the dependent variable, and the null hypothesis that all the population values for the regression coefficients are 0 should have been accepted. The regression output of most interest is the following table of coefficients and associated output:

Table 4.7: Regression Coefficients Results

| Model | | Standardized Coefficients | | |
|-------|--------------------------|---------------------------|-------|-------|
| | | Beta | t | Sig. |
| 1 | (Constant) | 0.954 | 7.367 | 0.000 |
| | organizational size | 0.971 | 2.021 | 0.045 |
| | structure formalization | 0.739 | 1.157 | 0.210 |
| | structure complexity | 0.835 | 1.194 | 0.234 |
| | structure centralization | 1.271 | 2.617 | 0.095 |

Source: Research Findings

Dependent variable: Return on assets (ROA)

From the Regression results in table below, the multiple linear regression model finally appear as;

$$ROA = 0.954 + 0.971SZ + 0.739SF + 0.835SC + 1.271SCE + \epsilon_i$$

The multiple linear regression models indicate that all the independent variables have positive coefficient. The regression results above reveal that there is a positive relationship between dependent variable return on assets (ROA) and independent variables (organizational size- Turnover & Number of Staff, structure formalization, structure centralization and structure complexity).

From the findings, one unit change in organizational size results in 0.971 units increase in institutions financial performance. One unit increase in structure formalization results in 0.739 units increase in institutions financial performance. One unit change in the structure centralization results in 1.271 increase in financial performance. One unit

change in structure complexity results in 0.835 unit increases in financial performance. The t statistics helps in determining the relative importance of each variable in the model. As a guide regarding useful predictors, we look for t values well below -0.5 or above +0.5. In this case, the most important variable was organizational size- Turnover & Number of Staff, structure formalization, structure centralization and structure complexity.

4.6 Summary and Interpretation of Findings

The current study intended to analyze the effects of organizational structure on financial performance of commercial state corporations in Kenya. Four variables have been identified to measure the financial performance of commercial state corporations, these variables are: organizational size, structure formalization, structure complexity, and structure centralization. Correlation analysis was incorporated to describe the strength and direction of the linear relationship between the two independent variables and the dependent variable.

The results of the descriptive statistics reveal that organizational size, structure formalization, structure complexity and structure centralization affected the financial performance of the commercial state corporations. Under structure formalization the researcher found out that department meetings were conducted on a regular basis as shown by mean 3.891 also there was a formal guideline on how to deal with every operational activity as shown by mean 4.172. The researcher also found out that policies and procedures manual are readily available to all staff as shown by mean 3.879.

Under structure complexity, the researcher found out that the respondents agreed that there are few levels of hierarchy before a decision is made as shown by mean 3.517 there are established departments to deal with every corporation mandate and that there is more than one income generating activity and also it was agreed upon that as shown by mean 3.451. Further, the study findings revealed that the respondents greatly agreed that the subordinate staff participate in decision making on matters relating to day to day operations of the corporation as shown by mean 4.129.

Correlation analysis was incorporated to describe the strength and direction of the linear relationship between the two study variables. The result reveals that the four variables in this study are correlated with financial performance. There was strong positive relationship between organizational size- Turnover & Number of Staff and structure centralization (correlation coefficient 0.7612), structure formalization and structure centralization (correlation coefficient 0.8321), structure complexity and structure centralization (correlation coefficient 0.7294), return on assets (ROA) and organizational size- Turnover & Number of Staff (correlation coefficient 0.6913) and return on assets (ROA) and structure formalization (correlation coefficient 0.8163), return on assets (ROA) and structure complexity (correlation coefficient 0.7568), lastly between return on assets (ROA) and structure centralization (correlation coefficient 0.8679).

For further analysis, a Linear Regression analysis was conducted to examine the extent to which the independent variables (organizational size- Turnover & Number of Staff, structure formalization, structure centralization and structure complexity) influence the

financial performance of commercial state corporations (dependent variable). The results of regression revealed that the model is significant and the coefficient of determination (R) for the regression is (.5713). The result of regression indicated that the variance in financial performance of commercial state corporations is explained by organizational size (Coefficient =0.971), structure formalization (Coefficient =0.739), structure centralization results in (Coefficient=1.271) structure complexity (Coefficient=0.835).

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter provides the summary of the findings from chapter four, and it also gives the conclusions and recommendations of the study based on the objectives of the study. The objectives of this study were to investigate the effects of organizational structure on the financial performance of the commercial state corporations in Kenya.

5.2 Summary of the Findings and Discussions

The study aimed at investigating the effects of organizational structure on financial performance of commercial state corporations. The study found that the respondents indicated that the organizational size and structure formalization affected the financial performance in the commercial state corporations to a great extent. The structure complexity affected the performance of the commercial state corporations was a challenge the board faced to a great extent as shown by a mean of 3.79. The respondents strongly agreed that the structural centralization played a big role in shaping commercial state corporations strategy as shown by a mean of 3.87.

5.3 Conclusions

The study concludes that the organizational size, structure formalization, structure complexity and structure centralization affected the financial performance in the commercial state corporations. The number of non-executive directors affected the performance of the commercial state corporation was a challenge the board faced. The

board was actively involved in shaping commercial strategy. From the findings, it was deduced that the organizational structure affected the financial performance of the commercial state corporations. The directors were involved in making the internal corporate governance mechanisms. Reducing ownership concentration affected the financial performance of the commercial state corporation. Employee involvement affected the financial performance of the commercial state corporations. The commercial state corporations' leadership affected the financial performance of the commercial state corporations. Finally, organizational size, structure formalization, structure complexity and structure centralization were also identified as the factors affecting the financial performance of the commercial state corporations.

5.4 Limitations of the Study

The research faced various challenges when conducting the research and most particularly during the process of data collection. The fact that the commercial state corporations ordinarily do not want to give information due to client confidentiality, some respondents felt that the information they were requested was confidential and hence they did not respond.

Time allocated for the study was limited especially that I am holding a full time job and studying part time. This was experienced during data collection and time limitation made it impractical to include more than one respondent for each corporation in the study.

The types of approaches used in measuring organizational structure attributes i.e. by using structured questionnaires might provide limited results and different research designs such as interviews may provide different results.

The survey research design relied on a single respondent for each organization thus raising reliability concerns. Therefore, bias effect of single respondent which could have reduced achievements of greater accuracy in the study.

The study only focused on all 34 purely commercial state corporations in Kenya. Therefore, generalizations could not adequately be extended to all commercial state corporations and also non-commercial state corporations that operate commercially.

5.5 Recommendations

5.5.1 Policy Recommendations

The study recommends that organizational size, structure formalization, structure complexity and structure centralization should be considered to be very important when corporation's management is developing their organizational structure that will achieve their strategic objectives since it has effect on financial performance of the corporations.

Board members should also be considered especially non-executive directors need to be selected well since they are actively involved in shaping commercial state corporations' strategic directions that affect financial performance of their corporations. The board size

and composition need also to be considered as they have impact on organization structure which affects financial performance.

Ownership concentration needs to be reduced to avoid few people controlling the financial performance of the organization. Employees should be encouraged to be more active in financial management aspects of the commercial state corporations business.

A constitution which clearly indicates how to select and replace the CEO and directors need to be adopted. Commercial state corporations should consider adopting conduct of regular Corporate Governance Audits and Evaluations. Good Corporate Governance has a positive economic impact on the institution in question as it saves the organization from various losses for example, those occasioned by frauds, corruption and similar irregularities.

Finally, the study recommends that financial monitoring should be done thoroughly by the corporations' board.

5.5.2 Suggestions for Further Studies

This study focused on the effect of organizational structure on financial performance of commercial state corporations in Kenya. Based on the findings of this study, several additional future directions can be suggested:

First, this study focused on all 34 purely commercial state corporations in Kenya. Therefore, generalizations could not adequately be extended to all commercial state

corporations and also non-commercial state corporations that operate commercially. It is therefore recommended that a broader based study covering all state corporations that generate revenue (Appropriations-in-Aids) to find out the effect of organization structure on financial performance.

Similar researches should be replicated in other commercial organizations and the results compared so as to establish whether there is consistency on effect of organizational structure on financial performance in various commercial organizations in Kenya.

The survey research design that relies on a single respondent for each organization has reliability concerns. Thus, replication studies with the use of multiple respondents or more than one respondent from each organization should be considered to enable researchers to address the bias effect of single respondent in order to achieve greater accuracy in the study.

The effect of organizational structure on corporate strategy is another area of interest which can be researched on commercial state corporations in Kenya.

Since this study only focused on the internal organizational structure attributes in commercial state corporations in Kenya, future research can be conducted by taking into consideration other factors affecting organization structure such as environmental, external and other organizational factors.

Moreover, a study should also be carried out to establish the challenges commercial state corporations in Kenya face while carrying out their established mandate.

REFERENCES

- Adams, R. B., & Mehran, H. (2005). Corporate performance, board structure and its determinants in the banking industry, in *EFA 2005 Moscow meetings*.
- Alexander, J., Fennel, M., & Halpern, M. (1993): Leadership Instability in Hospitals: The influence of Board-CEO relations and Organizational growth and decline. *Administrative Science Quarterly*, 38, 74-99.
- Alsaeed, K. (2006). The association between firm specific characteristics and disclosure: The case of Saudi Arabia. *Managerial Auditing Journal*, 21(5), 476-496.
- Barako, D.G., et al. (2006). Factors influencing voluntary corporate disclosure by Kenyan Companies. *Organizational structure: An International Review*, 14(2), 107-125.
- Beiner, S., et al (2003). Is Board Size an Independent Organizational structure Mechanism? Available
- Bhagat, S and B, Black (2002): The non-correlation between board independence and long-term firm performance. *Journal of Corporation Law*, 24(2), 231-274.
- Bhagat, S. and Bolton, B. (2008). Organizational structure and firm performance. *Journal of Corporate Finance* 14, 257-273.
- Bhimani, A. (2008): Making Organizational structure Count: The Fusion of Ethics and Economic Rationality. *Journal of Management and Governance*, 12(2), 135-147.
- Bourne, M., & Franco, M. (2003). Corporate Management. Cranfield Centre for Business Performance, Cranfield, United Kingdom.
- Cadbury A. (2002): Organizational structure and Chairmanship, a personal view. Oxford, Oxford University Press.
- Capital Markets Authority (2002). Guidelines on Organizational structure in public listed Companies in Kenya. *Kenya Gazette Notice No. 369, 122-128*. Companies Act Chapter 486, Laws of Kenya.
- Corporate Social Responsibility, Sustainability and a Stakeholder Approach in a Network World". *Journal of General Management*, 28, 1-28.
- Cutting, B. & Kouzim, A. (2002). The emerging patterns of power in Organizational structure. Back to the future in improving Corporate decision making. *Journal of managerial psychology*, 15(5), 477- 507.

- Dalton, D., et al. (2007): The fundamental agency problem and its mitigation. *The Academy of Management Annals*, 191, 1-64.
- Dalton, D., et al. (2009): Number of directors and financial performance: A Meta-analysis. *Academy of Management Journal*, 42(6), 674-686.
- Davis, J.H., et al. (1997): Toward a Stewardship Theory of Management. *Academy of Management Review*, 22,20-47.
- Donaldson.L and Davis. J. (1991): Stewardship Theory or Agency Theory: CEO Governance and Shareholder Returns. *Academy Of Management Review*, 20(1), 1-64.
- Eisenhardt, K.M. (1989): Agency Theory. An Assessment and Review. *Academy of Management Review*, 14,57-74.
- Freeman, R. E. (1984): Strategic Management: A Stakeholder Approach. Pitman, London
 Freeman, R.E. (1999): Response. Divergent Stakeholder Theory. *Academy of Management Review*, 24(2), 233-236.
- Gompers, P. A., et al. (2003). Organizational structure and equity prices. *Quarterly Journal of Economics*, 118(1),107-55.
- Hair, J.F., et al. (2010). Multivariate Data Analysis.(7th Ed.), Upper Saddle River, New Jersey. *Prentice Hall*.
- Hillman, A.J., et al. (2009): The Resource Dependency Role Of Corporate Directors: Strategic Adaptation of Board Composition in Response To Environmental Change. *Journal of Management Studies*, 37(2),235-255.
- Holmstrom, B. and Milgrom, P. (1994): The Firm as an Incentive System. *The American Economic Review*,84(4), 972-991.
- Jebet, C. (2007). A study of Organizational structure: Case of quoted companies in Kenya. University of Nairobi Press.
- Kakabadse, N.K. & Kakabadse, A. (2003). Polylogue as a platform for governance; Integrating people, the planet, profit and posterity. *Organizational structure*, 3(1), 5–38.

- Kariuki, M., et al. (2011). Relationship between Organizational structure and Growth of Organizations: A survey of Companies listed in Nairobi Stock Exchange. *Proceedings of Kabarak University. First International Conference*; October 2011.
- Kothari, C. R. (2004). *Research Methods: Methods & Techniques*. New Delhi. AGE International.
- Mak, T., and Li, Y. (2007): Determinants of Corporate Ownership and Board Structure: Evidence from Singapore. *Journal of Corporate Finance*, 7(1), 236-256.
- Matengo, M. (2008). The relationship between Organizational structure practices and performance: The case of banking industries in Kenya, *University of Nairobi*.
- Monks, R.A.G and Minow, N. (2007). *Watching the Watchers: Organizational structure for the 21st Century*, (Rev. Ed.) Cambridge: Blackwell.
- Mugenda, O. M., &Mugenda, A. G. (2003). *Research Methods: Quantitative and Qualitative Approaches*. Nairobi: ACTS Press.
- Mulili, M.B. and Wong, P (2010).Organizational structure in Developing Countries. The Case for Kenya. *International Journal of Business Administration*.2(1).
- Muriithi, P. (2009). Organizational structure. *KASNEB Newslines*, January to March 2009, Issue 1. Pp 3.
- Myers, S. (1997). Determinants of Corporate Borrowing. *Journal of Financial Economics*, 5, 147-75.
- Najjar, N. (2012). The impact of Organizational structure on the insurance firm's performance in Bahrain. *International Journal of Learning and Development*. 2(2).
- Naser, A., et al. (2002). Empirical evidence on the depth of corporate information disclosure in developing countries: The case of Jordan. *International Journal of Commerce and Management*, 12(4), 122-155.
- Ndung'u, N. (2012). Developments in Kenya's Insurance industry. *Remarks at the launch of Continental Reinsurance brand and products*, Nairobi.
- Ngechu, M. (2004). *Understanding the research process and methods: An introduction to Research Methods*, Nairobi, ACTS Press.

- Olajide, S. F. (2013). Organizational structure and Insurance Company Growth: Challenges and Opportunities. *International Journal of Academic Research in Economics and Management Sciences*, 2(1), 286-305.
- Padilla, A. (2002): Can Agency Theory Justify The Regulation Of Insider Trading. *The Quarterly Journal of Austrian Economics*, 5(1), 3-38.
- Ross, S.A. (1973): The Economic Theory of Agency: The Principal's Problem. *The American Economic Review*, 63(2), 134-139.
- Shleifer, A., and Vishny, R.W. (1997). A survey of organizational structure. *Journal of Finance*, 52, 737-784.
- Tornyeva, K and Wereko, T. (2012). Organizational structure and Firm Performance: Evidence from the Insurance Sector of Ghana. *European Journal of Business and Management*. 4(13), 95-112.
- Tornyeva, K and Wereko, T. (2012). Soft Governance and Firm Performance: A Study of Ghanaian Insurance Firms. *European Journal of Business and Management*. 4(13), 6-94.
- Vafeas, N. (2009). Board meeting frequency and firm performance. *Journal of financial economics*, 53, 113-142.
- Wheeler, D., Colbert, B. and Freeman, R.E. (2003) "Focusing On Value: Reconciling" Vol.3, No.4, 120.
- Yermack, D. (1996). Higher market valuation of companies with small boards. *Journal of financial economics* , 40, 185-211.
- Zheka, V. (2007). Does Organizational structure casually predict Firm Performance? *Panel Data and Instrumental Variables Evidence*.

APPENDICES

Appendix I: Cover Letter

JOHN NDWIGA NJIRU,

University of Nairobi,

P.O Box 30197

NAIROBI

September 2014

Dear Sir/Madam,

RE: DATA COLLECTION

I am a postgraduate student at University of Nairobi undertaking a Master of Business Administration degree Program. One of my academic outputs before graduating is a research project and for this I have chosen the research topic “Effect of organization structure on financial performance of commercial state corporations in Kenya”.

You have been selected to form part of the study. This is to kindly request you to assist me collect the data by responding to the questionnaire. The information you provide will be used strictly for academic purposes and will be treated with utmost confidence. A copy of the final report will be available to you upon request. Your assistance will be highly appreciated.

Yours sincerely,

JOHN NDWIGA NJIRU

Appendix II: Questionnaire

Please be honest and answer the following questions as per the instructions provided. This will take approximately 15-25 minutes of your time. The information provided was treated as confidential and no individual answer was published, rather it was aggregated together with others in the analysis process, for the academic purposes of this research.

SECTION A: GENERAL INFORMATION

By the means of tick (√) kindly indicate an option that best describes you where appropriate. Also fill in the blanks where necessary.

- 1 Name of State Corporation (Optional):
- 2 Date of completion of the questionnaire:
- 3 Position of the respondent:
- 4 Gender (a) Female (b) Male
- 5 Age bracket: 20 - 30 years 31 – 40 years 41 - 50 years
50 and above
- 6 Level of Education: Diploma Bachelor’s Degree Master’s
Degree Doctorate

SECTION B: ORGANIZATION STRUCTURE

- 7 Size of State Corporation in financial year 2012/2013:
 - a) Turnover achieved (in Kshs.):
 - b) Number of paid employees:

8 On a scale of 1 to 5 (Strongly Agree (SA) =5, Agree (A) =4, Neutral (N) =3, Disagree (D) =2, and Strongly Disagree (SD) =1, Please rate the following statements below by placing a check (√) mark in the relevant box below;

Structure Formalization

| | 5 | 4 | 3 | 2 | 1 |
|--|---|---|---|---|---|
| Sections/departments formal meetings/briefings are conducted on a regular basis. | | | | | |
| There are formal guidelines on how to deal with every operational activity/situation and the guidelines are available to staff. | | | | | |
| Written formal communications through established channels must be used on every engagement to be undertaken by the corporation. | | | | | |
| Every position in this corporation has a written job description | | | | | |
| There is formal orientation program for new members of staff. | | | | | |
| Policies and procedures manual are readily available to all staff. | | | | | |

Structure Complexity

| | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|
| There are few levels of hierarchy before a decision is made. | | | | | |
| For every corporation mandate, there is an established department/division to deal with it. | | | | | |
| There is more than one income generating activity/more than one mandate. | | | | | |
| Department/divisional decisions are approved by the head of the department/division. | | | | | |

Structure Centralization

| | 5 | 4 | 3 | 2 | 1 |
|---|----------|----------|----------|----------|----------|
| Sub-ordinate staffs participate in decision making on matters relating to day to day operations of the corporation. | | | | | |
| All investment decisions must be approved by board of directors before are undertaken the corporation. | | | | | |
| All operation activities to be undertaken by the corporation are approved by Chief Executive officer | | | | | |
| Staffs are asked to give their input on the adoption of new policies and procedures. | | | | | |
| No or little action can be taken by a staff on any matter without supervisor permission. | | | | | |

Appendix III: Data Collection Form

| Name of Company | Total Assets (in Kshs.) | Net Income (in Kshs.) | Number of Staff (Total Number) | Annual Turnover (in Kshs.) |
|------------------------|------------------------------------|----------------------------------|---|---|
| | | | | |
| | | | | |
| | | | | |
| | | | | |

Appendix V: List of Kenyan Commercial State Corporations

Purely Commercial State Corporation

| No. | Name of State Corporation |
|-----|---|
| 1. | Agro-Chemical & Food Company |
| 2. | Kenya Meat Commission |
| 3. | Muhoroni Sugar company Ltd |
| 4. | Nyayo Tea zones Development Corporation |
| 5. | South Nyanza Sugar Company Ltd |
| 6. | Chemilil Sugar Company Ltd |
| 7. | Nzoia Sugar company Ltd |
| 8. | Simlaw Seeds Kenya |
| 9. | Simlaw Seeds Tanzania |
| 10. | Simlaw Seeds Uganda |
| 11. | Kenya National Trading Corporation |
| 12. | Kenya Safari Lodges Ltd (Mombasa, Beach Hotel, Ngulia Lodge, Voi Lodge) |
| 13. | Golf Hotel Kakamega |
| 14. | Kabarnet Hotel Limited |
| 15. | Mount Elgon |
| 16. | Sunset Hotel Kisumu |
| 17. | Jomo Kenyatta Foundation |

| | |
|-----|---|
| 18. | Kenyatta University Enterprise Limited |
| 19. | Kenya Literature Bureau |
| 20. | Rivatex (East Africa) Ltd |
| 21. | School Equipment Production Units |
| 22. | University of Nairobi Enterprise Ltd |
| 23. | University of Nairobi Press |
| 24. | Development Bank of Kenya Ltd |
| 25. | Kenya Wine Agencies Ltd |
| 26. | KWA Holdings |
| 27. | New Kenya Co-operative Creameries |
| 28. | Yatta Vineyard Ltd |
| 29. | National Housing Ltd |
| 30. | Research development Unit Company Ltd |
| 31. | Consolidated Bank Of Kenya |
| 32. | Kenya National Assurance Co. (2001) Ltd |
| 33. | Kenya Reinsurance Corporation Ltd |
| 34. | Kenya National Shipping Line |

Appendix VI: Factors Affecting Financial Performance

| Structure Formalization | Mean | Std. deviation. |
|--|-------|-----------------|
| Sections/departments formal meetings/briefings are conducted on a regular basis. | 3.891 | 0.937 |
| There are formal guidelines on how to deal with every operational activity/situation and the guidelines are available to staff. | 4.172 | 0.815 |
| Written formal communications through established channels must be used on every engagement to be undertaken by the corporation. | 3.997 | 0.716 |
| Every position in this corporation has a written job description | 4.137 | 0.798 |
| There is formal orientation program for new members of staff. | 4.123 | 0.9117 |
| Policies and procedures manual are readily available to all staff. | 3.879 | 0.892 |

Sources: Research data

| Structure Complexity | Mean | Std. deviation |
|---|-------|----------------|
| There are few levels of hierarchy before a decision is made. | 3.517 | 0.637 |
| For every corporation mandate, there is an established department/division to deal with it. | 3.978 | 0.733 |
| There is more than one income generating activity/more than one mandate. | 3.451 | 0.914 |
| Department/divisional decisions are approved by the head of the department/division. | 4.089 | 0.857 |

Sources: Research data

| Structure Centralization | Mean | Std. deviation |
|---|-------|----------------|
| Sub-ordinate staffs participate in decision making on matters relating to day to day operations of the corporation. | 4.129 | 0.995 |
| All investment decisions must be approved by board of directors before are undertaken the corporation. | 3.971 | 0.925 |

| | | |
|--|-------|-------|
| All operation activities to be undertaken by the corporation are approved by Chief Executive officer | 3.578 | 0.841 |
| Staffs are asked to give their input on the adoption of new policies and procedures. | 4.135 | 0.759 |
| No or little action can be taken by a staff on any matter without supervisor permission. | 3.649 | 0.999 |

Sources: Research data