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Stakeholder Relationship and Performance of State Owned Sugar Manufacturing Firms in Western Kenya

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Abstract

Corporate Governance is a subject of academic and professional debate. It has and it will continue to be a topic under scrutiny for subsequent deliberations since there are many different research dimensions and contexts associated with it. However, it has been observed that the linkage between Corporate Governance and Performance of sugar manufacturing firms remains as an untapped area with considerable avenues of research. Corporate Governance is increasingly becoming important in organization as an approach of improving performance. Corporate Governance is the system through which organizations are directed and controlled. It is concerned with Transparency, Accountability and Power Relationship within and outside the organization. There has been an increasing importance in Corporate Governance in organizations in recent years. Some studies have argued for a positive relationship while others argued that there is a negative relationship between Corporate Governance and Organizational Performance. Studies have associated corporate governance with stakeholder relationship which has resulted to organization performance. This study sought to determine the effect of stakeholder relationship on Performance of state owned Sugar Manufacturing firms in Western Kenya. The researcher employed Correlation survey design. The population of the study consisted of four sugar manufacturing firms in Kenya which are state owned. Primary and Secondary data was be gathered through Qualitative and Quantitative approaches. Both Questionnaires and interview guide were used to collect primary information from key informants in the sugar sector. The study used use the test-retest technique to ascertain the reliability of the data collection instruments and the results from the two sets of responses was analyzed using crobanch alpha coefficient which was 0.936 thus above the acceptable threshold of reliability of 0.70. The Pearson Product Moment Correlation Coefficient was used to estimate the influence of the independent variable on the dependent variable while partial correlation was used to establish the influence of Environmental conditions on the relationship between Corporate Governance and Performance of state owned sugar manufacturing firms in Kenya. The study found out that there is a higher and positive correlation between stakeholder involvement (r=0.825) on performance of state owned sugar manufacturing firms in Kenya. From the study findings, it is recommended that that management of the state owned sugar firms should invest much of its resources in improving their stakeholder relationship. This can be achieved through: Regular stakeholders' communication of board and management changes; Communication distribution to stakeholders is in line with Corporation Act and Listing rules; having Roles/responsibilities which are clearly articulated in the MOU.

Keywords-*Stakeholder Relationship, Performance, State Owned Sugar firms, corporate governance, stakeholder*

1. Introduction

1.1 Background of the study

Stakeholder's relationship forms part of Corporate Governance Principles and Best Practices framework. The accuracy and reliability of the financial reports issued by management affects the perception of the firm by all other stakeholders and prospective investors (Nwadioke, 2009). The Zenith Company was to develop a Shareholder Communications Policy so as to promote effective communication with shareholders.

The Shareholder Communication Policy formed part of Corporate Governance Principles and Practices framework. It was to develop a Continuous Disclosure Policy to ensure that it complied with the Corporations Act and the ASX Listing Rules (RCG Corporation Limited, 2009). The Zenith Company Secretary had primary responsibility for ensuring that implementation and enforcement of the Policy had been given full support and

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cooperation of the Board. The Continuous Disclosure Policy forms part of Corporate Governance Principles and Practices framework. The Company recognized the value of providing current and relevant information to its shareholders.

The Disclosure Officers had the primary responsibility to communicate with shareholders. Information is communicated to shareholders through: Continuous disclosure to relevant stock markets of all material information; Periodic disclosure through the annual report (or concise annual report), half year financial report and quarterly reporting of exploration, production and corporate activities, Notices of meetings and explanatory material, the annual general meeting, and Periodic newsletters or letters from the Chairman or Chief Executive Officer (Welsh, 2007). The Company is committed to the promotion of investor confidence by ensuring that trading in the Company's securities takes place in an efficient, competitive and informed market. The Board is committed to timely disclosure of information and effective communication with its shareholders. This commitment is effected through the application of the External Disclosure and Market Communications Policy and a Communications strategy which includes processes which ensured that directors and management are aware of and fulfilled their obligations (Welsh, 2007).

1.2 Statement of the Problem

State owned firms play a major role in most economies through the provision of public services such as transport and energy. They were established to foster wider developmental goals, such as the sugar industry in Kenya which provide infrastructure and social amenities like schools and health services to communities. Corporate governance is increasingly becoming important in organizations as an approach of improving organizational performance especially through effective and efficient stakeholder relationship. MJ Roe (2010) investigated good governance from perspective of companies, investors and banks. From the company's perspective, it can no longer ignore the pressure for good corporate governance from the investor community. Installing proper governance mechanisms provides a company with a competitive advantage in attracting investors who are prepared to pay a premium for well governed companies. From an investor's perspective, corporate governance has become an important factor in investment decisions as it is recognized to have an impact on the financial risks of their portfolios. Institutional investors put issues of corporate governance on a par with financial indicators when evaluating investment decisions.

Most of the state owned firms in Kenya are characterized by inefficiency, losses and the provision of poor products and services. Subsequently, they have caused heavy budgetary burdens to the public. The stunning Kshs.59 billion debt of the sugar industry bears a testimony to this. (KSB Annual Report, 2016). Lack of sound stakeholder relationship in corporate governance has led to poor performance of organizations throughout the world as well as suppressing sound and sustainable economic decisions (Abhayawansa & Johnson, 2010). Economic crisis that hit the South East Asian stock markets in 1997-1998 was partly due to weak corporate governance in the region. The abuses which have been revealed within the system of governance have exposed problems with the lack of separation of politics from governance.

Several studies have demonstrated varying positive relationships between stakeholder relationship and Organizational Performance have not comprehensively identified and dealt with the complexities that are inherent in corporate governance processes (Nwadioke, 2009; Welsh, 2007; Larcker, David, Scott A. Richardson, & Irem Tuna, 2007; David *et all*, 2010). Empirical literature has revealed inconsistent findings regarding the relationship between stakeholder relationship and organizational performance. Given the inconsistency reported in Kenya and the fact that little studies have been done in Kenya on state owned sugar manufacturing firms, this study sought to determine the effect of stakeholder relationship on performance of state owned Sugar manufacturing firms in Western Kenya.

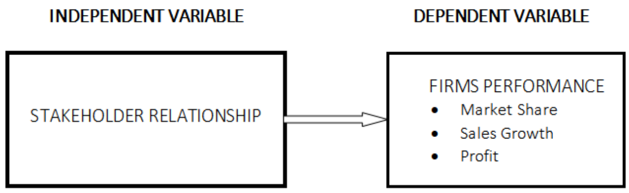
1.3 Objectives of the study

To assess the effect of Stakeholder Relationship on Performance of state owned sugar manufacturing firms in Western Kenya.

1.4 Research Hypotheses

H_{01} Stakeholder relationship has no influence on Performance of state owned sugar manufacturing firms in Western Kenya.

1.5 Conceptual Framework



Source: Researcher's own conceptual (2017)

Figure 1.1: Conceptual framework

2. Literature Review

2.1 Stakeholder Theory

Stakeholder Theory states that the purpose of the firm is to create wealth or value for all its stakeholders, rather than just only shareholders, by converting their stakes into goods or services (Clarkson *et all,* 2008). Stakeholders include any group or individual who has a stake in the achievement of an organization objective. Corporate governance efforts are intended to empower all stakeholders who contribute or control resources and to ensure that their interests are aligned with that of the shareholders. Freeman (2004) articulates that the focus of stakeholder theory is put forth in two key questions. First, “what is the purpose of the firm?” This encourages management to create a shared sense of the value they create, thus bringing its stakeholders together. This enhances the firm performance. Second, “what responsibility does management have to stakeholders?” This propels to design how they want to do business and how they will relate to their stakeholders in achieving their business goals. In the view of this theory everyone comes together in creating economic value that improves everyone circumstances. In essence, every legitimate person participating in the activities of the firm do so to obtain benefits and their priority is not self-evident. The study will majorly be guided by the Agency Theory.

2.2 Firm Performance

It is widely acclaimed that good corporate governance enhances firm performance (Eichholtz & Kok, 2010; Braga-Alves & Shastri, 2011; Gakam*,* 2009). In spite of the generally accepted notion that effective corporate governance enhanced firm performance, other studies reported negative relationship between corporate governance and firm performance (Hutchinson, 2002) or never found any relationship (Park & Shin, 2003), (Prevost*,* 2002; Singh & Davidson, 2003; Young, 2003). There are many studies on the relationship between corporate governance and firm performance. One study showed that corporate governance enhanced operating performance and prevented fraud (Omeiza Micheal, 2009). In general terms, although several attempts at establishing a link between corporate governance and firm performance confirmed causality, the literature indicated relationships that ranged between a strong and very weak association (Abor & Adjasi, 2007). For instance, while Black (2011) found a strong correlation between corporate governance and firm performance, however studies of Gompers, Ishii and Metrick (2008), Klapper and Love (2008), Nevona (2009), Bebchuk, Cohen and Ferrell (2009), Black and Khana (2010), Bruno and Claessens (2010), Chhaochharia,Vidhi and Laeven (2011), El Mehdi (2011), Kyereboah-Coleman (2011), Larcker, Richardson and Tuna (2011), Brown and Caylor (2013) revealed varying degrees of positive association (Klapper, Leora F. and Love, Inessa, 2012). On the other hand, Ferreira and Laux (2007), Gillan, Hartzell and Starks (2006) and Pham, Suchard and Zein (2007) all found a negative relationship between corporate governance and firm performance.

Companies with better corporate governance had better operating performance than those companies with poor corporate governance (Black, Jang, & Kan, 2012). Jensen and Meckling (2010) were concurrent with the view that better governed firms had more efficient operations, resulting in higher expected returns. It was also believed that good corporate governance helped to generate investor goodwill and confidence. Another study demonstrated that the likelihood of bankruptcy was related to poor corporate governance characteristics (Benninga, 2008). It was pointed out that the nature of performance measures (restrictive use of accounting based measures) such as Return on Assets (ROA), Return on Equity (ROE), Return on Capital Employed (ROCE) or restrictive use of market based measures (such as market value of equities) could also contribute to this inconsistency (Gani & Jermias, 2009). Furthermore, it was argued that the “theoretical and empirical literature in corporate governance considered the relationship between corporate performance and ownership or structure of boards of directors that used only two of these variables at a time” (Krivogorsky, 2009). Hermalin and Weisbach (2009) and McAvoy*,* 2007) studied the correlation between board composition and performance whiles Hermalin and Weisbach (2009), and Demsetz and Lehn (2005) studied the relationship between managerial ownership and firm performance.

The rewards of good corporate governance included reduction of waste on non-productive activities such as shirking, excessive executive remuneration, perquisites, asset-stripping, tunneling, related-party transactions and other means of diverting the firm’s assets and cash flows. It also resulted in lower agency costs that rose from better shareholder protection, which in turn led to greater willingness to accept lower returns on their investment. The firm ultimately ended up enjoying higher profits as it incurred lower cost of capital. Importantly, firms became more attractive to external financiers in direct proportion to a rise in their corporate governance profile. Finally, managers became less susceptible to making risky investment decisions, and focused more on value-maximizing projects that generally facilitated organizational efficiency. The ultimate outcomes of these corporate governance benefits were generally higher cash flows and superior performance for the firm (Klapper, Leora and Love and Inessa, 2012). Most of the studies on the link between corporate governance and firm performance confirmed causality (Abor & Adjasi, 2007). However, the evidence indicated between a strong and very weak relationship. Black (2001), for instance found strong correlation between corporate governance and firm performance, as represented by stock valuation. Some other studies however argued against a positive relationship between corporate governance and firm performance (Ferreira & Laux, 2007; Gillan, Hartzell & Starks, 2006; Pham, Suchard & Zein, 2007).

3. Research methodology

The researcher conducted a survey of all state owned sugar manufacturing firms in Kenya and adopts a descriptive research design. This design was chosen because of the need to collect cross-sectional data and perform comparative analysis. The design is considered appropriate because it allows for across analysis of opinion across various organizations

(Kothari, 2004). The population of the study comprised of Heads of Departments and Section in four sugar firms in Kenya. This total to 96 people. Thus the study was a census.

Primary and secondary data was used for the study. The primary data was collected using a structured questionnaire that is self-administered to the selected Departmental Heads. Secondary data was extracted from journals and financial reports of various sugar manufacturing firms. Interviews was held with the Managing Director and the Chairman of the Board instead of administering questionnaires to them since most of them are busy. A pilot study was carried out in Mumias Sugar Company to determine the instruments reliability before commencement of the survey. The researcher administered three (3) questionnaires to Senior Managers in the company for purposes of this study. This study used a questionnaire and tested its validity by use of content validity, which is a process of logical analysis that involves careful and critical examination of items in the research questionnaire. A few managers from selected state owned firms were given the questionnaires to fill in order to ensure that they carry valid content.

This study used a test-retest technique where the researcher administered a set of questionnaires to a sample of Managers from Mumias Sugar Company. The results was analyzed and noted. The researcher went back again after one week and administer the same questionnaire to the same respondents. Responses of the two categories of respondents in the company were also be analyzed and noted. The two sets of responses were correlated using Pearson product moment correlation coefficient of reliability (r) by the help of SPSS to determine the correlation coefficient. The obtained correlation coefficient was statistically accepted as a reliable measure of consistency of the questionnaire in measuring what it is intended to measure because it was found to be within the acceptable threshold of reliability set at 0.70. The cronbanch reliability alpha was found to be 0.936 as shown in Table 3.1. All the respondents who participate in the test-retest exercise were not allowed to participate in the main study.

Table 3.1: Reliability Test

Cronbach's Alpha	N of Items
.936	5

Data was analyzed with the help of the Statistical Package for Social Sciences (SPSS). Data was first "cleaned" to ensure consistency, exhaustiveness and completeness in information expected. In order to analyze data, descriptive and inferential statistics was employed. Descriptive statistics like set frequencies and means were used to summarize the data regarding Corporate Governance on Firm Performance. Analysis of output was presented using frequency distribution tables, mean and percentages. Pearson's Correlation Coefficients was used to test the relationship between Corporate Governance and Firm Performance. Simple Linear regressions model was used to determine whether to reject or fail to reject the null hypothesis.

$Y=\alpha+\beta X+e$

Where: Y=Organizational performance, α=constant, β=Regression coefficients, X=Stakeholder Relationship and e = Error term.

The researcher obtained permission from relevant authorities to carry out this study including permission from the companies where data was collected. Consent from the respondents was sought. The respondents' names and/or any form of identification were not written on the questionnaire in line with the principles of confidentiality. The researcher introduced herself to the respondents in a friendly manner and explains to them that the data was intended for academic purposes only and that none of them would be inadvertently victimised as a result of their participation in the study.

4. Results and discussions

4.1 Response Rate

Table 4.1: Response rate of respondents

Response	f	%
Collected	85	88.54
Uncollected	11	11.46
Total	**96**	**100**

Source: Field data (2017)

Table 4.1 shows that a total of 96 questionnaires were administered to the respondents out of which 85 questionnaires were properly filled and collected. This gave a response rate of 88.54% which is adequate for data analysis and generation of a conclusion of the study population. Bebbie (2004) asserted that return rates of 50% are acceptable, 60% is good and 70% is very good to analyze and publish research findings.

4.2 Descriptive statistical analysis

Study results in Table 4.2 shows that a number of respondents were in agreement (mean>2.5) with the following issues of stakeholder relationship as a component of corporate governance: Regular stakeholders communication of Board and management changes; Communication distribution to stakeholders is in line with Corporation Act and Listing rules; and Roles/responsibilities are clearly articulated in the MOU.

Table 4.2: Stakeholder Relationship

	N	Mean
Regular stakeholders communication of Board and management changes	85	1.8471
Communication distribution to stakeholders is in line with Corporation Act and Listing rules	85	2.4353
Effective communication is due to company policy on communication	85	2.8118
Roles/responsibilities are clearly articulated in the MOU	85	2.1882
Accountability of directors is enhanced due to effective company framework	85	2.7529
Valid N (listwise)	85	

Source: Field data (2017)

Table 4.3: Correlational results

		Firms Performance	Stakeholder Relationship
Firms Performance	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	85	
Stakeholder Relationship	Pearson Correlation	.825**	1
	Sig. (2-tailed)	.000	
	N	85	85

Source: Field data (2017)

Table 4.4: Regression results

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.868[a]	.753	.744	.50818

a. Predictors: (Constant), Stakeholder Relationship, Board Composition, Top Management Composition

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	63.724	3	21.241	82.251	.000[b]
	Residual	20.918	81	.258		
	Total	84.642	84			

a. Dependent Variable: Firms Performance

b. Predictors: (Constant), Stakeholder Relationship, Board Composition, Top Management Composition

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.248	.189		-1.308	.194
	Board Composition	.207	.120	.155	1.725	.088
	Top Management Composition	.326	.122	.256	2.663	.009
	Stakeholder Relationship	.678	.098	.546	6.890	.000

a. Dependent Variable: Firms Performance

Source: Field data (2017)

However respondents were undecided (Mean=3) on the following element of stakeholder relationship: Effective communication is due to company policy on communication; and Accountability of directors is enhanced due to effective company framework. In general, it can be deduced that stakeholder relationship is very vital in corporate governance in state owned sugar firms in Western Kenya. Nwadioke (2009) and Welsh (2007) research findings regarding improved corporate governance as a result of stakeholder relationship agrees with these research findings.

Inferential statistical analysis

Study results in Table 4.3 indicate the following: there is a higher positive and significant relationship between stakeholder relationship and firm performance (r=0.825) at 0.01 level of significance. The study can be interpreted that stakeholder relationship leads to a higher increase in firm performance which are in concomitant with past research findings of Eichholz & Kok, 2011).

Study finding results in Table 4.4 of model summary show that there is a strong positive relationship between corporate governance constructs like board composition, top management composition and stakeholder relationship on firm performance (R=0.868). It also reveals that corporate governance accounts for 75.3% of the firm performance and the rest 24.7% of the firm performance is as a result of other factors a part from corporate governance (R^2=0.753).

ANOVA results in Table 4.4 indicate that the overall multiple regression model is feasible in measuring the relationship between corporate governance and firm performance. This is shown by a significant F-statistical test (F=82.251; p=0.000). Coefficient results also reveal that stakeholder relationship is a significant measure of firm performance hence stakeholder relationship leads to a higher increase in firm performance by 0.678 units.

From the results, the overall multiple regression model can me written as;

Y (firm performance) = -2.48+0.207BC+0.326TMC+0.678SR

Where: BC= Board composition; TMC=Top management composition; and SR=Stakeholder relationship. 0.207, 0.326 and 0.678 represents β_1, β_2 and β_3 respectively. Since $\beta_3 \neq 0$, the study rejects the null hypothesis and concludes that there is a relationship between stakeholder relationship on firm performance of stake owned sugar firms in Western Kenya.

5. Summary, conclusions and recommendations

5.1 Stakeholder relationship and firm performance

The study found out that of stakeholder relationship as a component of corporate governance leads to increase firm performance. This was illustrated by respondents level of agreement that there are: Regular stakeholders communication of Board and management changes; Communication distribution to stakeholders is in line with Corporation Act and Listing rules; and Roles/responsibilities are clearly articulated in the MOU. However respondents were undecided) on the following element of stakeholder relationship: Effective communication is due to company policy on communication; and Accountability of directors is enhanced due to effective company framework.

The study correlation results found out that there is a high positive and significant relationship between stakeholder relationship and firm performance. The study findings on regression analysis found out that stakeholder relationship is a significant determinant of firm performance and it use lead to an increase in firm performance. The study thus rejected the third research hypothesis and concluded that stakeholder relationship has a significant relationship on firm performance.

5.2 Conclusion

The study concludes that stakeholder relationship as a component of corporate governance leads to increase firm performance. The study also concluded that there was a high positive and significant relationship between stakeholder relationship and firm performance thus it contributes significantly to the performance of the firm.

5.3 Recommendations

Since the study found out that there is a very high correlation and significant relation between stakeholder involvement and firm performance, it is recommended that management of the sugar firms should invest much of its resources in improving their stakeholder relationship. This can be achieved through: Regular stakeholders' communication of board and management changes; Communication distribution to stakeholders is in line with Corporation Act and Listing rules; having Roles/responsibilities which are clearly articulated in the MOU.

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