

INTERNATIONAL JOURNAL OF RESEARCH IN COMPUTER APPLICATION & MANAGEMENT

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THE INTERPLAY OF ORGANIZATIONAL DYNAMICS ON CORPORATE GOVERNANCE IN THE FACE OF A PERFORMANCE CONTRACTING IN KENYA

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ABSTRACT

This study sought to examine how sound corporate governance plays a vital role for good corporate governance to protect the interests of investors, maintain financial order, regulate the development of capital markets and strengthen the confidence of investors. Strategies are reviewed all the time due to the constant changes and during this period, several parties are affected resulting in politics in one way or another. Politics itself determine organisational policies. There is also the politics of the state which is a factor that determines the policies that will be employed in managing the organization to be able to attain organizational objectives. The objective of the study is to identify the Organizational dynamics as an element in Corporate Governance that needs to be considered if the organization is to succeed in the performance contracting in a dynamic business environment. The methodology involved interviewing several Senior Officers from:- (1) the Private Sector, (2) Government run public organizations and (3) Government run semi-private sector at length, and linking this information to published and unpublished documentation. Given the sensitivity of the subject all requested complete anonymity and I have endeavored to comply. The findings were that the Organizational dynamics may be both positive and negative in the sense that constructive politics contributes to the good of the organization while negative politics is detrimental to the attainment of organizational objectives. The study thus discloses that there is a positive relationship between cabinet approach towards business and board perspective and board compositions.

KEYWORDS

Corporate Governance, Performance Contracting, Board Composition.

1.0 INTRODUCTION

1.1 DEFINITION OF PERFORMANCE CONTRACTING

A mechanism under Public Sector Reforms that aims at improving performance of the Public Sector through; setting clear objectives, setting SMART (Simple, Measurable, Accurate, Realistic and Time-bound) targets, specifying agent performance in terms of results (*outputs*) & assigning accountability for those results, increasing the transparency of the accountability relationship in public institutions, establishing clear reporting, monitoring and evaluation mechanisms of the projects & providing a basis for assessment of performance. It also provides a basis for renegotiation for the performance (*The first three Public Institutions in every category is given presents as a reward*). The Performance Contracting process is normally done on quarterly basis. At the end of every quarter, each Institution should submit their quarterly reports and finally annual report to their reporting agency. A feedback with comments on the report is normally sent back to the Institution for improvement. The targets are majorly derived from the Institutions Strategic Plan especially the implementation matrix section in which it is expected that the time-frame for each activity is outlined.

The Performance Contracts make performance indicators clear to Kenyan citizens, who are then empowered to demand accountability from their public officials. This type of involvement has begun to restore public trust in government. One indication of this is citizens' increasing willingness to pay taxes. Indeed, the Government's tax collections grew at a yearly average of 13.6 percent during the span of 2001-2007. This increase in the public coffers has contributed to (a) the Kenyan Government's ability to enhance around 95% of its budget from internal sources and (b) the Kenyan GDP growth rate's rapid turnaround from negative levels in the 1990s to 6.1 percent by 2006 (Muthaura, 2007).

Performance Contracting outlines: (a) what the institution does, (b) what services users can expect, (c) the standard of services to be provided, and (d) the timeframe within which the service will be provided. Aside from this, it also informs citizens:- (a) of their need to pay or submit requirements and (b) how they may seek redress if service provided is unsatisfactory or subpar in comparison to the institution's commitments (Muthaura, 2007).

The state corporations have tremendous governance problems. Some of the state corporations have folded up partly as a result of governance problems as observed in South Africa by (Kyereboah and Biekpe, 2006). In Kenya, a parastatal is a State Corporation under State Corporation Act Cap 446 (1987).

The paper observes that the introduction of performance contracting in State Corporations is meant to assist Government participate through close supervision and ensure accountability with appropriate independence or authority State Corporations through which government participation in closer supervision on accountability with perhaps appropriate independence or autonomy. The paper underlines the need to implement performance contracting by State Corporations with a view to improve the overall performance of the Semi Autonomous Government entities.

2.0 LITERATURE REVIEW

2.1 THE CONCEPT OF PERFORMANCE CONTRACTING

The term performance contracting can be traced from France in the late 1960's and other countries including India, Pakistan and Korea (OECD, 1997). It has been adopted in developing countries in Africa, including Nigeria, Gambia, Ghana and now Kenya (Kobia and Mohamed, 2006). Prior to this period the business environment was rather stable and therefore strategic planning was entrusted in the hands of the top management of the organization. This practice was counterproductive as managers who were implementers of the strategic plans were not involved at the formulation stage.

The Kenyan government does acknowledge that over the years there has been poor performance in the public sector, especially in the management of public resources which has hindered the realization of sustainable economic growth (GoK, 2005). The government reiterates in the Economic Recovery Strategy (ERS) some of the factors that adversely affect the performance of the public sector. These include excessive regulations and controls, frequent political interference, poor management, outright mismanagement and bloated staff establishment. To improve performance, the government has continued to undertake a number of reform measures. However, these measures have not provided a framework for guiding behavior towards attainment of results or ensured accountability in the use of public resources and efficiency in service delivery. The initiatives for instance lack the performance information system, comprehensive performance evaluation system and performance incentive system (GoK, 2005).

The governments of the newly independent states built on this, developing public enterprises and nationalized industries in order to 'maintain a high degree of public control over national resources as a means of facilitating national growth' and promote social justice (Ikiara, 2000, p. 44–5).

Many African states, Kenya included, considered 'nationalization' an essential element of economic survival. The Kenyan government developed parastatals to provide services of a monopolistic nature and to Africanize the sector and redistribute regional income: As such, the growth of parastatals in Kenya can be attributed to economic as well as social and political objectives. Given that there was a shortage of local entrepreneurs with adequate capital and skills at independence, the government considered it necessary to be involved both directly and indirectly in the economy. (Mwaura, 2007, p. 43)

2.2 PERFORMANCE MEASUREMENT.

Performance measurement is often taken to be crucial to the delivery of improved services as part of New Public Management. Emphasis on performance management for delivery of results is undoubtedly influenced by the basic assumption of performance management which lies in its professed ability to unite the attention of institution members on a common objective and galvanize them towards the attainment of this objective (Balogun, 2003).

Performance Contracts were first introduced in Kenya on 1st October 2004, in (sixteen) 16 largely commercial State Corporations. In 2005/2006, all the then 35 Government Ministries/Departments, 116 State Corporations and five pilot Local Authorities signed Performance Contracts and were evaluated in September 2006. In 2006/2007, all the 38 Government Ministries/Departments, 127 State Corporations and 175 Local Authorities signed Performance Contracts and were evaluated in October, 2007. During 2007/2008 all the 38 Government Ministries/Departments, 130 State Corporations and 175 Local Authorities signed Performance Contracts and were evaluated in October 2008. Evaluation of performance in respect of the Financial Year 2008/2009 involved 45 Ministries/Departments, 139 State Corporations, 175 Local Authorities and 68 Tertiary Institutions.

To transfer monopoly from the public to the private sector. The same inefficiency that characterized public enterprises could then resurface in privatized firms. With little interest in entrepreneurship but a large appetite for looting public assets, these elite would soon sell the assets so acquired and move their wealth elsewhere, thereby undermining capital formation in the economy. (Anyang' Nyong'O et al., 2000, p. viii)

2.3 THE COMMONWEALTH PERSPECTIVE ON CORPORATE GOVERNANCE

As regulatory barriers between national economies are removed and global competition for capital increases, investment capital will follow the path to those countries and corporations that have adopted efficient governance standards. These standards include acceptable levels of investor protection and board practices as well as satisfactory accounting and disclosure standards. It was in this milieu that the requirement for determining a set of guidelines, or principles that could appropriately represent the Commonwealth approach to corporate governance was identified and formulated. However, it was clearly recognised that the notion of a "one size, fits all" type of universal code was not only inappropriate but undesirable. In any event, a number of Commonwealth member nations where the private enterprise sectors are relatively developed have individually established national codes to address their own special requirements – namely, United Kingdom (Cadbury, Greenbury and Hampel Reports), Australia (Bosch Report), South Africa (King Report), Canada (Dey Report), India and Malaysia.

"The proper governance of companies will become as crucial to the world economy as the proper governing of countries." James D. Wolfensohn, President of the World Bank c. 1999.

2.4 THE INCLUSIVE APPROACH

Within the Commonwealth, therefore, the primary issue surrounds the role of the director – whether of a private sector or state-owned enterprise. Nonetheless, given the particular circumstances and requirements of the many economies comprising the Commonwealth, equally relevant are the issues surrounding the responsibility of such business enterprises and their directors towards the broader constituency of stakeholders – namely, employees, the community, bankers and other suppliers of finance such as international funding agencies, the environment, health and safety, securities exchange and financial market regulators, and others. The Commonwealth Association for Corporate Governance advocates an inclusive approach to corporate governance.

In Kenya, Performance contracting is a freely negotiated performance agreement between a government, acting as the owner of a public agency and the management of the agency. It is used in the Kenyan public to measure performance. Local authorities face pressure to improve service delivery, lower costs become more accountable, customer focused and responsive to stakeholder needs.

2.5 THE BOARD AS STIPULATED IN STATE CORPORATION

The Board in Kenya fulfills its fiduciary obligations to the shareholders by maintaining control over the strategic, financial, operational and compliance issues of the Organization. Whilst the Board provides direction and guidance on strategic and general policy matters and remains responsible for establishing and maintaining overall internal controls over financial, operational and compliance issues, it has delegated authority to the Managing Director to conduct the day-to-day business of the Organization.

For the Board to exhibit real executive leadership, one must be a visionary, a trailblazer, a strategist, a communicator, a coach, a diplomat and a politician. The world's most successful leaders are able to focus on the big picture and uphold high standards while wearing many hats.

The most critical component of corporate excellence and success is excellent leadership. Unfortunately without sound institutions of governance, that defines the rules of the game and facilitates the emergence, development and maintenance of "effective and accountable leaders", no "leadership will be sustainable". Hence the Government of Kenya introduced Performance Contracting to supervise the supervisors.

2.6 CORPORATE GOVERNANCE IN KENYA

Consultative Corporate Sector seminars held in November 1998 and March 1999 resolved that a Private Sector Initiative for Corporate Governance be established to: Formulate and develop a code of best practice for corporate governance in Kenya; Explore ways and means of facilitating the establishment of a national apex body [the National Corporate Sector Foundation to promote corporate governance in Kenya; Co-ordinate developments in corporate governance in Kenya with other initiatives in East Africa, Africa, the Commonwealth and globally.

On October 8, 1999 the Corporate Sector at a seminar organized by the Private Sector Initiative for Corporate Governance formally adopted a national code of best practice for Corporate Governance to guide corporate governance in Kenya, and mandated the Private Sector Initiative to establish the Corporate Sector Foundation, and collaborate with the Global Corporate Governance Forum, the Commonwealth Association for Corporate Governance, the African Capital Markets Forum, Uganda and Tanzania in promoting good corporate governance.

Corporate Governance is concerned with the establishment of an appropriate legal, economic and institutional environment that would facilitate and allow business enterprises to grow, thrive and survive as institutions for maximizing shareholder value while being conscious of and providing for the well-being of all other stakeholders and society.

Good Corporate Governance requires that the State puts in place and maintains an enabling environment in which efficient and well-managed companies can thrive. It is therefore expected that companies will continue to play their part in encouraging dialogue between the public and private sectors in promoting good public governance and an enabling business environment.

It is the responsibility of the owners of the corporation to elect competent directors and to ensure that they govern the corporation in a manner consistent with their stewardship.

Good corporate governance dictates that the Board of Directors governs the corporation in a way that maximizes shareholder value and in the best interest of society. It is neither in the long-term interest of the enterprise or society to short-change customers, exploits labour, pollutes the environment nor engages in corrupt practices.

3.0 ANALYSIS AND FINDINGS

3.1. IMPACTS OF PERFORMANCE CONTRACTING IN KENYA

Implementation of the Process of Performance Contracting began only in 2004. The real impact of the process is now becoming visible. However, according to Kobia and Mohammed, (2006), there is clear evidence of some radical improvement particularly in the following aspects of the management of Public Service: (i) Remarkable and unprecedented improvement in profit generation for commercial state Corporations (ii) Significant improvement in service delivery and

operations by the Government Ministries such as Immigrations and Registration of Persons, Agriculture, Provincial Administration and Internal Security, Health, finance and Water.(iii) Significant improvement in the operations and services by some local authority bodies e.g. Nairobi City Council, Kisumu and Nakuru Municipalities.(iv) Unprecedented improvement in service delivery and operations by the bulk of state Corporations and statutory boards, among them, KenGen, Kenya Power and Lighting Company Limited, Kenya Ports Authority, Kenya Utalii College, National Oil Corporation of Kenya, KICC etc.

3.2 SIGNIFICANCE OF PERFORMANCE CONTRACTING IN KENYA

Helps in fast-tracking; Institutions Strategic Plan, the aligned Sector Plan, Kenya's Medium -Term Plan 2008- 2012 and the Kenya's Vision 2030.

For achievement of the set targets, the institutions have to develop intense monitoring and evaluation system hence ensuring proper coordination of projects. It has instilled discipline to Public Institution' Management by ensuring adherence to work-plans, Strategic Plans, Sector Plans and the Vision 2030. Enhanced accountability in the public service as it defines who does what, when and how. It has led to enhancement of the efficiency in service delivery as the Institutions set higher targets every contract period. It gives room for recognition of the Public Servants hence improves the performance. Some Public Institutions have realized that working to achieve the set targets does not only help them perform better but also aid in the institutions' operations. It has led to a competitive Public Service as compared to the old fashioned style and also enhanced their growth and development.

There are a range of initiatives being taken in the field of corporate governance that bears the potential of affecting positively the improvement of corporate governance standards in general. Some of these corporate governance reform initiatives are on a national level; some are regional, while others are pan-African in scope.

3.3 KEY ISSUES ON CORPORATE GOVERNANCE IN RELATION TO PERFORMANCE CONTRACTING

3.3.1 SHAREHOLDERS

1. How well do Company objectives reflect shareholder expectations?
2. Is there full and accurate reporting on Company affairs to the shareholders?
3. What is the state of relationship with the shareholders?
4. What are the Board's relationships with monitoring agencies?

3.3.2 THE COMPANY

1. Is the level of strategic planning of sufficient quality and content?
2. How accurately is the strategic plan reflected at an operational level in the business plan?
3. Does the Board review the Company's performance against the business plan?

3.3.3 THE DIRECTION OF THE COMPANY

1. How satisfactory is the Board's monitoring of the Company?
2. Are the important issues being identified?
3. How well are these analyzed and discussed?

3.3.4 THE CEO

1. How well is the CEO's job Description defined?
2. Is the CEO satisfactorily supported by counsel from the Board?
3. Is the CEO's performance monitored and appraised satisfactorily?
4. Is the Board avoiding excessive intrusion in the CEO and/or management's responsibilities?

3.3.5 BOARD MEETINGS

1. Is the information supplied to the Board appropriate and relevant?
2. Is preparation and planning for Board meetings satisfactory?
3. Is the frequency and style of meetings appropriate?
4. Is Board attendance and participation working well?
5. Is the Board and Committee structure still appropriate?
6. Are accurate and timely minutes made and maintained?
7. Is there follow up on actions necessary and/or reports to the Board on actions taken?

3.3.6 INDIVIDUAL BOARD MEMBER CONTRIBUTIONS

1. Is the Chairman carrying out his role satisfactorily?
2. Is there recognition and use of individual Board members' particular skills?
3. Is the Board contributing contacts and generating business?
4. Is the Board making other special contributions to the success of the Company as a whole?

3.4 COMMONALITIES IN THE STUDY

A common finding in this study shows that, the Boards in Kenya embraces the principles of good governance as set out in the a number of governance frameworks; including the Capital Markets Authority Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya, the Kings Code on Corporate Governance Report and the Principles for Corporate Governance in Kenya issued by the Center of Corporate Governance.

3.5 ROLE AND FUNCTIONS OF THE BOARD

The Board specifically exercise leadership, enterprise, integrity and judgement in directing the organization so as to achieve continuing prosperity for its shareholders/principal shareholder. The Board shall at all times act in the best interests of organization in a manner based on transparency, integrity, accountability and responsibility.

3.6 GOOD CORPORATE

Good corporate governance practices must be nurtured and encouraged to evolve as a matter of best practice but certain aspects of operation in a body corporate must of necessity require minimum standards of good governance. In this regard Capital Market Authority expects the directors of every public listed company to undertake or commit themselves to adopt good corporate governance practices as part of their continuing listing obligations.

4.0 CHALLENGES

Although Performance Contracting has had these successes, it has also experienced some challenges. A major activity of the Performance Contracting exercise, at least from the view-point of the public, is the public announcement of the performance results of MDAs by H.E. the President and the Rt. Hon. Prime Minister. Over the last three periods of performance contracting, the public has raised dissatisfaction on the results as they do not relate to performance (service delivery) on the ground as perceived and received by the public. The dissatisfaction with the performance results was not only limited to members of the public. Ministries, Departments and Agencies have also challenged the announced results. Indeed, the public outcry over the results became so strong that the results for 2007 were never released.

The Government recognises the usefulness of Performance Contracting as a tool for improved service delivery following the apparent mismatch between the results generated by the Performance Contracting tool and the reality on the ground.

5.0 CONCLUSION

Given the limited focus of this paper, the conclusions and lessons to be drawn are similarly restricted to documented and views of the Interviewed Individuals, it is clear that there has been some improvement in the performance of the public service in Kenya and the related Government agencies(parastatal). However for sustainability of the success achieved so far, the authors do recommend further analysis of the tool in used and a different approach in evaluating Government

Department from Government agencies. Further they do recommend that more studies need to be done with a view to establish the root cause of challenges facing performance contracting and Corporate Governances in Kenya.

From the various national codes of corporate governance that were analyzed, it is clear that standards of good governance are intimately intertwined with high standards of business ethics. The challenge that faces Kenyan enterprises is to translate this commitment to high standards of ethics into organizational practice. It is therefore imperative that these developments on the enterprise level should be reinforced with governance reform on the regulatory and political level.

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ANNEXURE

SAMPLE INSTITUTIONS INTERVIEWED DURING THIS STUDY

A) PUBLIC SECTOR

S.No	Organizations	Number of Official
1	Kenya Ports Authority	1
2	Kenya Airport Authority	1
3	Kenya Bureau of Standards	1
4	Kenya Revenue Authority	1
5	Kenya Ferry Services	1

B) SEMI- PRIVATE SECTOR

S.No	Organizations	Number of Official
1	KENGEN	1
2	Commercial Bank of Kenya	1
3	National Bank of Kenya	1
4	Kenya Airways	1
5	Kenya national Shipping lines	1

C) PRIVATE SECTOR

S. No	Organizations	Number of Official
1	Bamburi Cement Ltd	1
2	Grain Bulk Ltd	1
3	Kenya Nuts Ltd	1

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