STRATEGIC MANAGEMENT PRACTICES AND SUSTAINABILITY OF STATE CORPORATIONS

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ABSTRACT

Strategic management is the formulation and implementation of the major goals and initiatives taken by an organization's top management on behalf of owners, based on consideration of resources and an assessment of the internal and external environments in which the organization competes. In the recent decade, sustainability (ability to successfully sustain an organization) in a context of rapidly changing environmental, social, health, and economic circumstances has emerged as crucial aspect of any strategy development. Strategic management practices have been observed to significantly relate to the sustainability and growth of firms in the wake of modern corporate governance systems globally. This paper looks into the influence of strategic management practices on the sustainability of state corporations. In so doing it draws some strategy challenges that are faced by the state corporations and recommends the need to reform corporations so as to reap in economic growth.

KEY WORDS: Parastatals, Strategic Management Practices, Sustainability.
1.0 INTRODUCTION

1.1 Background to the Study

The Kenya government forms state corporations to meet both commercial and social goals. They exist for various reasons including: to correct market failure, to exploit social and political objectives, provide education, health, redistribute income or develop marginal areas. At independence in 1963 state corporations (parastatals) were retooled by sessional paper no. 10 of 1965 into vehicles for the indigenization of the economy. Thus majority of key state corporations that exist today were established in the 1960s and 1970s, (Ngirachu, 2013). State corporations are fundamental in correcting market failures by carrying out activities which may not be profitably carried out by private sector entities. Most state corporations attribute any negative variations on set performance targets to external environmental challenges (Mkalama, 2014). However, positive performance is most likely attributed to managerial ingenuity.

State Corporations analyze the environment which enables them to account for issues of government regulations, social nature, communities and societies, and hence establish the right responses. Galbreath (2010) illustrates that the line managers, middle and top level management personnel are very important in collecting, processing and disseminating information on employees, customers and market trends as well as an additional knowledge can be received from outside consultants and experts to establish strategies that meet organizational goals. Formal strategic planning practices are very important preconditions for efficient organizational performance in all state corporations, (Ondera, 2013). By use of strategic planning practices, efforts analyze both internal and external environments, use knowledge from multiple resources, and assist state corporations to understand and formulate responses to meet the demands for sustainability.

It is argued that since state corporations operate in highly competitive environments, creating a winning strategy is not a onetime event since a good strategy today might not be successful the following day. They might give emphasis on product differentiation and customer service while other corporations might be considering price. Therefore, harmonization of all functions in these corporations is very important. Schraeder (2002) observes that CEOs, top management and line management are involved in strategic planning practices when there is high demand for proactiveness, environment is complex, and speed of adjustment in conditions of high competitive pressure. This means that strategic planning practices in state corporations in Kenya can be done through internal orientation, external orientation, functional coverage, formal, informal, and centralization process.

1.1.1 Strategic Management

Strategic management provides overall direction to the enterprise and involves specifying the organization’s objectives, developing policies and plans designed to achieve these objectives, and then allocating resources to implement the plans. According to Njagi and Kombo (2014), academics and practicing managers have developed numerous models and frameworks to assist in strategic decision making in the context of complex environments and competitive dynamics. Murimbika (2011) contended that strategic management is not static in nature; the models often include a feedback loop to monitor execution and inform the next round of planning. Michael Porter identifies three principles underlying strategy: creating a unique and valuable (market) position, making trade-offs by choosing what not to do, and creating fit by aligning organizational activities with one another to support the chosen strategy. Strategy is a system of finding, formulating, and developing a doctrine that will ensure long-term success if followed faithfully, (Awino, Muturia & Oeba, 2012).
Bakar et al (2011) contend that strategic management is often described as involving two major processes: formulation and implementation of strategy. It involves the related concepts of strategic planning and strategic thinking. Strategic planning is analytical in nature and refers to formalized procedures to produce the data and analyses used as inputs for strategic thinking, which synthesizes the data resulting in the strategy. Strategic planning may also refer to control mechanisms used to implement the strategy once it is determined. In other words, strategic planning happens around the strategic thinking or strategy making activity. Strategy planning practices according to Zhexembayeva's (2014) are viewed as critical ways that the state corporations use to address the stakeholders to analyze their expectations.

According to Ondera (2013), formulation of strategy involves analyzing the environment in which the organization operates, then making a series of strategic decisions about how the organization will compete. Formulation ends with a series of goals or objectives and measures for the organization to pursue. Environmental analysis includes the: Remote external environment, including the political, economic, social, technological, legal and environmental landscape (PESTLE); Industry environment, such as the competitive behavior of rival organizations, the bargaining power of buyers/customers and suppliers, threats from new entrants to the industry, and the ability of buyers to substitute products (Porter's 5 forces); and Internal environment, regarding the strengths and weaknesses of the organization's resources (i.e., its people, processes and IT systems).

Murgor (2014) contended that strategic decisions are based on insight from the environmental assessment and are responses to strategic questions about how the organization will compete, such as: organization's business; the target customer; value to the customer; businesses, products and services to be included or excluded from the portfolio of offerings; geographic scope of the business; what differentiates the company from its competitors in the eyes of customers and other stakeholders; skills and capabilities to be developed within the firm; the important opportunities and risks; opportunities for firm growth, through both its base business and new business and how can the firm generate more value for investors.

Favaro (2015) avers that once the strategy is determined, various goals and measures may be established to chart a course for the organization, measure performance and control implementation of the strategy. Tools such as the balanced scorecard and strategy maps help crystallize the strategy, by relating key measures of success and performance to the strategy. Taiwo and Idunnu (2010) emphasize that these tools measure financial, marketing, production, organizational development, and innovation measures to achieve a 'balanced' perspective. Advances in information technology and data availability enable the gathering of more information about performance, allowing managers to take a much more analytical view of their business than before.

**State Corporations in Kenya**

Corporations are unelected bodies with an internal hierarchy; their purpose is to exert control over the social and economic life of their respective areas. Thus, for example, a steel corporation would be a cartel composed of all the business leaders in the steel industry, coming together to discuss a common policy on prices and wages, (Njoroge, et al., 2015). When the political and economic power of a country rests in the hands of such groups, then a corporatist system is in place. Mkalama (2014) posits that corporatization refer to the construction of state corporatism, where government-owned corporations are created and delegated public social tasks resembling Corporate nationalism, away from autonomous privatization. Corporatization can also refer to non-corporate entities like universities or hospitals taking up management structures or other features and behaviours employed by corporations.
The Kenyan public sector comprises various categories of organizations. These include government ministries, departments, semi-autonomous government agencies and state corporations that carry out activities on behalf of the government for the benefit of the public (Ongeti, 2014). These entities carry out different functions depending on the mandate. Some of them play the facilitative role of public service delivery to achieve social, political, economic and regulatory objectives. Kenyan State owned Corporations comprise the largest segment of public sector organizations (GoK, 2013). They are businesses owned by government for the purpose of carrying out commercial and non-commercial functions. They are also critical to building the capability and technical capacity of the state in facilitating and/or promoting national development.

**State Corporations Sustainability**

According to GoK (2013), the State Corporation act is an Act Cap 44 of the laws of Kenya makes provision for the establishment, control and regulation of state corporations. A state corporation has perpetual succession; in its corporate name is capable of suing and being sued and is capable of holding and alienating movable and immovable property. Over time, there have been concerns over their efficiency and effectiveness in service delivery. Owing to such concerns, the Government of Kenya (GoK) introduced, adopted New Public Management (NPM) (Obong’o, 2009). One form of NPM practice was introduction of strategic management practices. Further, the Government of Kenya has pursued a deliberate policy of enhancing effectiveness and efficiency, relevance and financial viability of state corporations (Ongeti, 2014; GoK, 2013). Strategic plans are developed in all the Kenyan state corporations.

According to Ngirachu (2013), State Corporations in Kenya have been experiencing a myriad of problems, including corruption, nepotism, and mismanagement. Challenges revolve around politicization and poor corporate governance where board members are appointed by political powered (the president and the minister) as are the chief executives. Thus many operational decisions are not necessarily non-partisan. Njorge, Machuki, Ongeti, & Kinuu (2015) further noted the weak supervisory mechanism where the role of the state corporation advisory committee is just advisory yet it could play a more powerful as a monitor and evaluator performance. Another major challenge is the structure of financing and financial management whereby many state corporations are allocated funds through line ministries thus end up being chronically underfunded. They are allowed to borrow funds but many have not repaid their loans. Expenditure controls are weak. Prosecution of chief executives for abuse of office and misappropriation of funds is also usually not carried out.

Sustainability in the modern corporate environment calls for innovations. Nadya Zhexembayeva's (2014) research suggested that innovation driven by resource depletion can result in fundamental competitive advantages for a company's products and services, as well as the company strategy as a whole, when right principles of innovation are applied. Laszlo (2011) and Zhexembayeva’s (2014) research showed that embedded sustainability offers at least seven distinct opportunities for business value and competitive advantage creation: a) better risk-management, b) increased efficiency through reduced waste and resource use, c) better product differentiation, d) new market entrances, e) enhanced brand and reputation, f) greater opportunity to influence industry standards, and g) greater opportunity for radical innovation. These may be applicable in enhancing the sustainability of state corporations.
1.2 Problem Statement
The environment in which organizations operate is dynamic and turbulent with constant and fast paced changes that often render yester-years strategies irrelevant (Ofunya, 2013). This makes strategic management requisite for sustainability and high performance in organizations. Numerous studies have been carried globally and locally on the influence of strategic management practices on organizational performance. For instance, Melchorita (2013), Bakar et al (2011), Murimbika (2011), Dauda et al (2010) and Ofunya (2013) analyzed the relationship between strategic management practices and organizational performance in different organizations but none of them investigated the influence of strategic management practices on performance of floricultural firms. Limited studies have focused public sector, especially on sustainability of state corporations, but have rather examined performance levels. Thus, this study aimed at establishing the influence of strategic management practices on performance of floriculture firms in Kenya.

1.3 Objectives of the Study
1.3.1 The general objective of the study was to evaluate the influence of strategic management practices on the sustainability of state corporations, through the case of the National Social Security Fund (NSSF) in Nairobi County.

1.3.2 Specifically, the study aimed to:
   i. Establish the influence of strategy formulation competencies on the sustainability of NSSF Kenya
   ii. Evaluate the influence of strategy implementation competencies on the sustainability of NSSF Kenya
   iii. Establish the influence of control in strategy implementation and sustainability of NSSF Kenya
   iv. Recommend viable strategies for policy in enhancing sustainability of state corporations

1.4 Value of the Study
The study highlighted if strategic management practices adopted by state corporations. It shed light on how the various stages of strategic management process/function influence the organization from an operational point of view and the challenges inherent. Finally, the study evaluated how corporate sustainability is influenced by the strategic management practice adopted by an organization, particularly in the state corporations giving focus to the top level, middle level and lower level managers and their contribution to the strategy process. The findings would thus be beneficial to the management of the corporations and the national government while formulating strategies for sustainable service delivery to the citizens. Private sector players would benefit from the study as they focus on effective corporate governance and competitiveness. Further, future scholars may rely on the study as reference.
2.0 Literature Review

2.1 Theoretical Framework

The study will be anchored on the Open System Approach Theory which views an organization as an entity that cannot survive on its own since its decisions are influenced by the environment it operates in. According to Baestedo (2004), an open systems theory is simply a concept that shows how organizations are strongly compelled by the environment that they are in. Open system view is such that organizations take inputs which could include material, information, and financial resources from the environments surrounding them and transform them into outputs or maximize on them to work in the organization’s favour, (Muriuki, 2015).

The research will also be anchored on Strategic Management Practices Framework, which acknowledges the importance of the various processes of strategic management. Strategy involves a lot of strategic alignment meaning that organizational performance in most cases will depend on the consequence of fit between the organization’s factors such as its strategy, its structure, the kind of technology it has adopted, the culture, and the environment. Mintzberg (1994) points out that people use strategy in various ways, the most common of them being that a strategy is a plan or could be defined as a means of getting from one place to another.

2.2 Strategy Management Practices and Corporate Stainability

Strategic Management is a concept that concerns making decisions and taking corrective actions to achieve long-term targets and goals of an organization (Bakar et al, 2011). It is a set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company’s objectives. Strategic management practices therefore include strategic planning; strategy implementation and strategy evaluation and control, (Ombaka, Muindi & Machuki, 2015).

Ofunya (2013) examined the relationship of strategic management practices and firm performance in Post bank in Kenya. The study revealed that the strategies adopted by Post bank so as to cope with the competitive environment included vigorous pursuit of cost reductions, providing outstanding customer service, improving operational efficiency, among other. Mwangi (2013) investigated strategic management practices and performance of large pharmaceutical firms in Kenya. The study findings revealed that firms that were applying strategic management practices were more willing to innovate prepared to take risks and were more proactive than competitors. Muogbo (2013) investigated the impact of strategic management on organizational growth and development of selected manufacturing firms in Anambra State. Results from the analysis indicated that strategic management was not common among the manufacturing firms in Anambra State but its adoption had significant effect on competitiveness and influences on manufacturing firms.

Strategy Formulation

Strategy formulation is the development of long-range plans for the effective management of environmental opportunities and threats, in light of corporate strengths and weaknesses, (Machuki, Aosa, & Letting, 2012). It includes defining the corporate mission, specifying achievable objectives, developing strategies and setting policy guidelines. Taiwo and Idunnu (2010) examined the impact of strategic planning on organizational performance and survival. The study evaluated the planning-performance relationship in organization and the extent to which strategic planning affected performance of First Bank of Nigeria. The findings indicated that planning enhances better organizational performance, which in the long term impacts its survival.
Bakar et al, (2011) studied the practice of strategic management in construction companies in Malaysia. The findings of the research showed that most of the firms practicing strategic management had a clear objective, a winning strategy to achieve the objective and a sound mission statement to guide the organization towards success.

**Strategy Implementation**

Strategy implementation is an organizational adaptation activity through which continued organizational stellar performance can be achieved (Murgor, 2014). Strategy implementation is a vital component of the strategic management process. Implementation addresses who, where, when and how of reaching desired goals and objectives. Many scholars have defined strategy implementation in different but similar terms. Wheelen and Hunger (2011) define it as the sum total of the activities and choices required for the execution of a strategic plan to accomplish the objectives of the organization. It is the process by which strategies and policies are put into action through the development of programs, budgets and procedures. Thus, implementation is the process of translating strategic plans into results, (Favaro, 2015). Njagi and Kombo (2014) examined the effect of strategy implementation on performance of commercial banks in Kenya. Results revealed that there was a strong relationship between strategy implementation and organizational performance.

**Strategy Evaluation/Control**

Strategy evaluation involves setting control processes to continuously review, evaluate and provide feedback concerning the implemented strategies to determine if the desired results are being attained such that corrective measures may be taken if needed. Ondera (2013) examined strategic management practices in Mbagathi District Hospital, Nairobi, Kenya. The study revealed that, the hospital formulates implements and evaluates the work plan by involving all staff working at the hospital and that the management allocated funds based on the work plan to facilitate the process of strategy implementation.

Strategic control is concerned with tracking the strategy as it is being implemented, detecting problems or changes when deemed necessary and making the necessary adjustments (Pearce and Robinson, 2008). The review of monthly, quarterly and annual reports is one of the means management exercise their evaluation and control of a strategy. The reviews require a look at for instance the profit margins, sales; earnings per share and return on investment to assist management determine the effectiveness of the strategy being implemented. Pappas et al (2007) examined the joint influence of control strategies and market turbulence on strategic performance in sales-driven organizations. Results from the survey of sales-driven organizations indicated that self, professional, activity, and output control systems had varying effects on participation in strategic activity.
3.0 Instruments and Methods

The study employed descriptive research designs. The target population comprised staff of NSSF in Nairobi County, Kenya with the management of these firms being the respondents. A census study was carried out due to small nature of the target population. Primary data was collected using a semi-structured questionnaire. The questionnaire comprised of closed ended questions and a few open ended ones, guided by conceptual and empirical literature. The research instrument was administered through drop and pick method by the researcher assisted by three research assistants as well as email.

All the 61 respondents were approached and served with the questionnaire out of which 60 were filled and returned resulting into a response rate of 98 percent that rate compares well with previous studies in the Kenyan state corporations. The data was analysed using content analysis for qualitative data. The quantitative data was analysed using regression analysis. ANOVA test was carried out to test the significance of the model.

4.0 DATA ANALYSIS AND RESULTS

4.1 Descriptive Analysis

Once data had been collected, it was prepared, organized, analyzed, and used to report the findings. Data preparation included questionnaire checking, sorting, editing, coding and data cleaning. Linear regression was used to establish the influence of strategic management practices on NSSF sustainability. The study's preliminary findings included descriptive statistics of the variables.

Measures of central tendency, dispersion, sample t-test coefficient of variation and correlation analysis were included in the preliminary findings. Strategic management practices was the independent variable of the study. To operationalize the Strategic management practices, the study focused on the dimensions of strategy formulation, implementation, evaluation and control. The results of the descriptive statistics for external environment are as shown in Table 3.

Table 1: Descriptive statistics fir strategic management practices

<table>
<thead>
<tr>
<th>Description</th>
<th>N</th>
<th>Mean</th>
<th>Std. Dev</th>
<th>t-value</th>
<th>Sig. tail</th>
<th>CV (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy Formulation Competence</td>
<td>60</td>
<td>3.7142</td>
<td>0.30001</td>
<td>116.439</td>
<td>0.000</td>
<td>11</td>
</tr>
<tr>
<td>Strategy Implementation Competence</td>
<td>60</td>
<td>3.7195</td>
<td>0.31564</td>
<td>114.701</td>
<td>0.000</td>
<td>9</td>
</tr>
<tr>
<td>Strategy Implementation Evaluation/control</td>
<td>60</td>
<td>3.9233</td>
<td>0.39431</td>
<td>97.075</td>
<td>0.000</td>
<td>8</td>
</tr>
</tbody>
</table>

Table 1 shows that the three constructs of strategy formulation, implementation, evaluation and control had a mean score of above the mean of 2.5. Strategy implementation evaluation and control had the highest mean score of 3.9233 implying that control environment of the organization had largely affected sustainability. Competence in strategy formulation and implementation had mean scores of 3.142 and 3.7195, respectively.
It is clear that the human management practices were significant indicators of sustainability in state corporations. Further, variations in the responses were low (CVs ranging from 8 for control, 9 for implementation and to 11 formulation percent) implying that respondents generally agreed on the statements regarding related to process.

To find the effect of strategic management practices on NSSF sustainability, a model was generated by regressing strategic management practices aspects and sustainability as shown on the table 1

Table 2: Multiple Regression Model Summary for Strategic Management Practices

<table>
<thead>
<tr>
<th>Model</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>R Std. Error of Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.596a</td>
<td>.356</td>
<td>.315</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Formulation competence, Implementation competence, Evaluation and control environment

The model summary in Table 4.14 shows the R value was 0.596 indicating that there is a positive relationship between strategic management practices factors (Formulation competence, Implementation competence, evaluation/control environment) and sustainability of NSSF. The R squared (R^2) value of 0.315 shows that 31.5 percent of sustainability in NSSF is explained by strategic management practices factors considered under this study.

Table 3 ANOVA for Strategic Management Practices

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>37.171</td>
<td>4</td>
<td>9.293</td>
<td>8.699</td>
<td>.000b</td>
</tr>
<tr>
<td>Residual</td>
<td>67.300</td>
<td>63</td>
<td>1.068</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>104.471</td>
<td>67</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Sustainability

b. Predictors: (Constant), Formulation competence, Implementation competence, Evaluation and Control environment

The results of ANOVA revealed that the entire model was significant with the F ratio = 8.699 at p value 0.000 < 0.05. This is an indication that the model can be relied upon.
Table 4: Coefficients of Internal Controls

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>(Constant)</td>
<td>-.663</td>
<td>1.215</td>
</tr>
<tr>
<td>Strategy formulation</td>
<td>.351</td>
<td>.141</td>
</tr>
<tr>
<td>Strategy implementation</td>
<td>.445</td>
<td>0.096</td>
</tr>
<tr>
<td>Evaluation and control</td>
<td>.394</td>
<td>0.107</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Sustainability

Table 16 shows that the beta coefficients of the resulting model indicate that strategy formulation, implementation and control had positive effect on sustainability of NSSF with slopes of \( \beta_1 = 0.351 \), \( \beta_2 = 0.445 \) and \( \beta_3 = 0.394 \) respectfully. The study results show that there was positive and statistically significant relationship between strategy implementation competence at p value \(< 0.05\) and strategy evaluation and control at P value \(< 0.05\). Strategy formulation competence had positive but insignificant effect on financial performance in SACCOs at p value \(0.15 \).< 0.05\).

5. Conclusions and Recommendations

Conclusion

Given the findings of the study strategy implementation competence as well as the control environment are important drivers of sustainability of state corporations. It implies that implementation and control initiatives undertaken are significant aspects of an effective strategic management practice for State corporations. State corporations’ management should therefore lay emphasis on monitoring of strategy implementation process in order to enhance sustainability. Importantly, they should re-evaluate capacity of boards and the supervisory mechanism where the role of the state corporation advisory committee will not just be advisory but play a more powerful as a monitor and evaluator performance. This would strengthen the sustainability of state corporations.

Recommendations of the Study

Given the findings this study recommends the following: State corporations should develop strong mechanisms for strategy implementation and a policy to ensure that monitoring and evaluation is effectively undertaken. State corporations should also formulate policy to ensure that risk assessment and control is done at different levels and corrective and/or preventive measures are taken in order to mitigate negative effect.
REFERENCES


APPENDIX I: STATE CORPORATIONS IN KENYA

1. Industrial Development Bank (IDB) Capital Ltd;
2. Kenya Investment Authority (KIA);
3. Kenya Industrial Research and Development Institute (KIRDI);
4. Kenya Industrial Estates (KIE);
5. Industrial and Commercial Development Corporation (ICDC);
6. Kenya Bureau of Standards (KEBS);
7. Export Promotion Council (EPC);
8. Export Processing Zones Authority (EPZA);
9. Kenya Industrial Property Institute (KIPI);
10. Numerical Machining Complex (NMC);
11. Kenya National Trading Corporation (KNTC);
12. Kenya Wines Agencies Ltd (KWAL);
14. Kenya Tourist Development Corporation (KTDC);
15. Kenya Utalii College (KUC);
16. Kenya Tourist Board (KTB);
17. Catering and Tourism Development Levy Trustees (CTDLT);
18. Bomas of Kenya;
19. Kenya Wildlife Service (KWS);
20. Kenyatta International Conference Centre (KICC);
22. Tourism Trust Fund (TTF);
23. National Social Security Fund (NSSF);
24. Kenya National Library Services (KNLS); and
25. Sports Stadia Management Board (SSMB);
26. National Council for Persons with Disability (NCPD);
28. Youth Enterprise Development Fund.