

To investigate the effect of administrative/legal factors on organizational performance: A Study of Selected Medium Sized Manufacturing Enterprises in Nairobi, Kenya

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ABSTRACT

Political factors define the legal, administrative and regulatory framework within which organizations operate. Political/legal variables are state oriented and at both national and local level can affect an organization's activities on a day to day basis through its laws, policies and authority. It can thus affect an organization's strategic decisions by creating opportunities and threats, which arise because the political environment can determine the structure of an industry through monopoly and restricted trade practices.

This study investigated the effect of administrative/ legal factors on organizational performance. The research was conducted through a descriptive survey of MEs in Nairobi, Kenya. Eighty Medium Enterprises (MEs) were selected using simple random sampling from a population of 165 MEs in Nairobi. Primary data was collected using a semi-structured questionnaire. The respondents who were members of management team filled open and close ended questions. The data was analyzed statistically using the SPSS and R packages through tabulation, proportions and Z-statistics. The results show evidence that the level of organization performance is affected by administrative/legal factors. The higher the influence of administrative/legal factors the lower the performances. An enabling legal, administrative and regulatory environment is imperative for ME sector to play an effective role as an engine for economic growth, poverty eradication and employment creation.

Key words: *Administrative/Legal, Organizational Performance, MEs.*

INTRODUCTION

Allison (1971) proposes that the power theory explains that a thin, but quite different stream in the literature has focused on strategy making rooted in power. Two separate orientations seem to exist. Micro power sees the development of strategies within the organization as essentially political – a process involving bargaining, persuasion, and confrontation among actors who divide the power. Macro powers views the organization as an entity that uses its power over others and among its partners in alliances, joint ventures, and other networks relationships to negotiate “collective” strategies in its interest. The MEs in Kenya experience macro power from the government through administrative/legal laws.

Political factors define the regulatory parameters within which firms must operate. Political constraints are placed on firms through fair-trade decisions, antitrust laws, tax programs, minimum wage legislation, pollution and pricing policies, administrative jaw boning and many other actions aimed at protecting employees, consumers, the general public and the environment. Since such laws and regulations are commonly restrictive, they tend to reduce potential profits of firms. Yabs (2007) also agrees that political development affect business environment in Kenya. One study on corporate political strategies and firm performance indicated that firm specific benefits may result from political strategies. Thus some MEs have been destroyed by policies (RoK, 1997). MEs have also been known to have adversely been affected by political/legal factors (Aosa, 1992).

Consumers in the same country usually share a common political environment, but the political environment can also have a dramatic effect on opportunities at a local or international level. Some business managers have become very successful by studying the political environment and developing strategies that take advantage of opportunities related to changing political dimensions (McCarthy, 1993).

Despite significant achievements in reforming the legal and regulatory framework, a number of existing laws and regulations still remain cumbersome, out of step with current realities and hostile to the growth of ME sector. Specifically, the by-laws applied by many Local Authorities are not standardized and appear, in most cases, punitive instead of facilitative (ROK, 2005). At the same time, the role of Provincial Administration in the enforcement of regulations and in jurisdiction over land and utilities tends to overlap and conflict with those of Local Authorities. Finally, the bureaucratic and lengthy process of transacting business with Government agencies adversely impacts on the operations of the MEs by diverting the scarce resources from production to

sheer housekeeping. Though administrative/legal factors affect businesses in Kenya (Yabs, 2007), no studies have been done to investigate their effects on MEs performance. From these past findings null hypothesis was proposed:

H₀: Administrative/legal factors do not significantly affect the organizational performance of MEs.

Although, many studies as noted below have found that different companies in different countries tend to emphasize on different objectives, the literature suggests financial profitability and growth to be the most common measures of organizational performance in relation to its environment over a period of time.

Accounting figures can reveal inefficiency in performance; inefficiency of the firms' and general threats caused by macro-economic factors like inflation, interest rate and foreign exchange rates and other macro-environmental factors like administrative/legal. But that is not all, threats, opportunities and future strengths and weaknesses should be continuously identified. The trends should be regularly reviewed to ensure identification of sudden, fast and potentially surprising changes.

Organizational performance can be judged in terms of whether or not an organization achieves the various objectives set before it. Some of the objective measures to assess performance include creation of new products according to time and resources target (Bradley and Hebert, 1996), reduction of operational failures (Mjos, 2002), reduction in organizational costs, increase in overall revenue, improvement of customer service and workforce productivity, as well as financial and non-financial measures. The measures of organizational performance can further be evaluated from the perspective of various stakeholders (Gu, 1994; and Kaplan and Norton, 1996).

A relationship exists between strategy and performance. Strategy is a set of decision-making rules for guidance of organizational behavior. The rules are yardsticks by which the present and future performance of the firm is measured. The rules may also be used for developing the firm's relationship with its external environment (Ansoff, 1990). Aligning administrative/legal strategy, performance and business results gives a step by step guide to making strategy happen. This demonstrates how adapting a strategic approach to performance management can lead to a clear competitive advantage and reveals what puts some companies' way ahead of the competition in managing strategic performance.

MATERIALS AND METHODS

The study was a descriptive survey which set out to investigate the effect of administrative/legal factors on organizational performance. The research was carried out in industrial area of Nairobi where these manufacturing firms are situated. The study was descriptive and the purpose of the study was to determine how the administrative/legal environment in which these enterprises operate affects their performance. The data collection exercise involved a self-administered structured questionnaire, as this was the most appropriate for collecting the information required for the study from medium manufacturing firms that had been identified through random sampling.

Evidence shows that manufacturing industry activities in Kenya are concentrated in major towns (KIRDI, 1997). The target population included all (112) medium sized manufacturing enterprises in Nairobi from Kenya Industrial and Development Institute (KIRDI) directory listing which provided the sampling frame from which the study sample was selected. This is because two thirds of the medium sized firms are in Nairobi (KIRDI, 1997) forming the majority of the medium enterprises in Kenya. Out of 165 MEs, 112 (67 percent) are based in Nairobi and 33 percent are spread in all other parts of the Country. Nairobi represents a typical town with a variety of Medium Sized manufacturing Enterprises. It may represent other upcoming towns that have MEs in Kenya. The political, social-economic and competitive environment encountered by ME's in Kenya are similar.

Peter (1994) and Saunder et al., (2000) provides a table of determining the sample size. According to the table a population of 100 should have a random sample size of 80. The method assumes the population is homogenous. The sampling technique used was simple random sampling which is one of the probability or representative sampling. In probability sampling each case had an equal chance of being selected from the population. A sample list was obtained from KIRDI directory from which the sample was drawn. Some eighty (80) MEs from the manufacturing sector in Nairobi were selected using simple random sampling.

The MEs sampled were all from manufacturing sector that employed 50-100 people on permanent basis. They manufactured a variety of products ranging from food, steel, plastics, textile, chemicals and others. The respondents were the firm managers. The questionnaire method was used for data collection. The questions were picked from those of Aosa (1992) and Sababu (2001). However, these questions were modified to suit the objective of the study. The Likert scales used in the survey instrument were tested for reliability using the Cronbach's Alpha method and found all to be highly reliable. This was evidenced by high values of the

Cronbach’s alpha coefficient, that is, above 0.9. Generally, according to George and Mallery (2003) the more Alpha tends to 1 for a likert measurement scale, the higher its reliability. The data was analyzed using Statistical Package for Social Sciences (SPSS) for windows version 6.1 and R computer package. The effect of administrative/legal factors on organizational performance was analysed using Z-statistics.

The effect of administrative/legal factors on organizational performance is expressed as:

$$Z = \frac{\hat{p}}{se(\hat{p})} = \frac{\hat{p}}{\sqrt{\hat{p}(1-\hat{p})/n}} \tag{3}$$

where the \hat{p} is the sample observed relative frequency and $se(\hat{p}) = \sqrt{\frac{\hat{p}(1-\hat{p})}{n}}$ is the standard error of the statistic \hat{p} and n is the size of the sample considered. The null hypothesis rejected at some α level if the absolute value of the statistic computed is greater than or equal to 1.96. That is

Y is a nominal response variable that measures the extent of government regulations given by

$$Y = \begin{cases} 1, & \text{if to a small extent} \\ 0, & \text{if to a great extent} \end{cases}$$

RESULTS

The effect of administrative/legal factors on MEs performance

The major environmental variables hypothesized to influence organizational performance of MEs are administrative/legal factors which were operationalized as government regulations on organizational performance of MEs is summarized in Table 1.1.

Table 1.1: Effect of government regulations on the performance of MEs

Extent of Influence	Frequency	Percent
To a great extent	52	83.87
To a small extent	9	14.52
No response	1	1.61
Total	62	100.0

According to Table 1.1, a majority of the respondents (83.9%) said government regulations affect performance of their firms “to a great extent”, while 14.5% said to a small extent.

About 84% of the medium size enterprises feel that government regulations greatly affect their performance. That is, $\hat{p} = 0.84$.

The null hypothesis that administrative/ legal factors do not significantly affect the extent to of organization performance is rejected on the basis of the Z-statistic.

$$1. \quad Z = \frac{\hat{p}}{se(\hat{p})} = \frac{\hat{p}}{\sqrt{\hat{p}(1-\hat{p})/n}} = 18.04 > Z_{0.05} = 1.645 .$$

$$= \frac{0.84}{\sqrt{0.84 \times 0.16 / 62}} = 18.04 > Z_{0.05} = 1.645$$

At the 0.05 level of significance we conclude that administrative/ legal factors significantly affect the extent of performance of MEs (Gichunge, 2010).

The results show evidence that the level of organization performance is affected by administrative/legal factors. The relationship between the dependent variable (organizational performance) and the independent variable (administrative/legal factors) is therefore negative. The statistical test of administrative/legal factors influence on organization performance is therefore significant. The higher the influence of administrative /legal, the lower the performance.

Among the factors that affect performance of MEs is the Factory Act. Table 1.2 shows the pertinent responses.

Table 1.2: The negative influence of Factory Act on the performance of MEs

Response	Frequency	Percent
Rise in production cost	9	14.52
Increased cost on imported products	7	11.29
Annual repairs expenses on protection gear and medicine	5	8.06
Others	25	40.32
Not to any extent	5	8.06
No response	11	17.74
Total	62	100.0

From the above table, some 14.5% complained that the Factory Act results in rise of production costs. Another 11.3% complained that the Factory Act requirements result in increased cost on imported products. In addition, 8.06% of the responding firms complained, because of the requirements of the Factory Act, the money they spend on annual repairs, protection gear and medicine for workers is too high. Others 40.3% include Oppressive Act, lowering morale, time wasted, the Act not clear and the Act not sensitive to MEs needs.

Another administrative/legal factor that affects performance of organizations is the tax. Table 1.3 shows the perceived effects of government taxes on MEs in the manufacturing sector.

Table 1.3: The effect of government taxes on performance of MEs

Factors	Frequency	Percent
Reduction in profit	21	33.87
Cost increases	10	16.77
Low sales	23	37.10
Low production	3	4.84
Others	5	8.06
Total	62	100.0

As shown in Table 1.3 above, 33.87% of the respondents said the taxes reduce their profits while another 16.8% mentioned the same by indicating that costs increase their operations. This conforms with the findings of Henderson and Will (1997). Government should try to reduce taxes to minimal.

DISCUSSION

A majority of the respondents (83.9%) said government regulations affect performance of their firms “to a great extent”. These include numerous licenses to operate a business and heavy taxation on manufactured goods. The government should reduce the number of licenses required as well as reduce taxation to encourage manufacturers. Therefore, firms should use their internal strengths and opportunities around them to counter the effect of government controls and promote performance.

This is in line with literature findings and expectations that administrative/legal factors affect organizational performance. The results were consistent with theoretical and empirical expectations. It is consistent with past studies that administrative/legal factors affect organizational performance. Woodburn (1984), study of business policy variables in South African companies found that managers in Africa relied on centralized structures and carried out ad-hoc planning. Woodburn attributed this to environmental turbulence, lack of management resources and hostile government activity. Yabs (2007) adds that there are political uncertainties and interference on MEs in Kenya. 33.87% of the respondents said the taxes reduce their profits while another 16.8% mentioned the same by indicating that costs increase their operations. This conforms with the findings of Henderson and Will (1997).

Some business managers have become very successful by studying the political environment and developing strategies that take advantage of opportunities related to changing political dimensions. Government regulations include numerous licenses to operate a business and heavy taxation on manufactured goods. The government should reduce the number of licenses required as well as reduce taxation to encourage manufacturers. Therefore, firms should use their internal strengths and opportunities around them to counter the effect of government controls and promote performance.

CONCLUSION

The objective of this study was to investigate the effect of administrative /legal factors on organizational performance. It was found that administrative/legal factors significantly affect the level of organizational

performance, $Z=1.645$. An enabling legal, administrative and regulatory environment is imperative for ME sector to play an effective role as an engine for economic growth, poverty eradication and employment creation.

RECOMMENDATIONS

The government should provide conducive legal, administrative and regulatory environment for ME sector to play an effective role as an engine for economic growth, poverty eradication and employment creation.

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