Board Characteristics as a Determinant of Effectiveness of Corporate Governance in State Corporation in Kenya

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ABSTRACT
The main purpose of the study was to determine the effectiveness of Board Characteristics on Corporate Governance at state corporations in Kenya. Based on the literature, a research hypothesis was formulated to investigate the relationships between independent variable namely: board characteristics and the dependent variable. This study was based on The Agency and Stewardship theories. The research methodology selected was a descriptive survey design. The design ensures ease in understanding the insight and ideas about the problem. The target population of the study was the managers in all the 151 state-owned corporations in Kenya. The sampled companies for the study were 46 representing 30% which were identified through systematic random sampling technique. Five managers from each of the 46 sampled companies were identified through systematic random sampling by purposeful sampling technique giving a total sample size of 230 managers. The key research instrument used was a 5-point-likert scale questionnaire ranging from 1-strongly disagrees to 5-strongly agree. Primary data was collected by use of questionnaires which were administered through drop and pick method. Reliability and convergent validity of the questionnaire was tested using the Cronbach’s alpha and principal component analysis respectively. Descriptive statistics of means and standard deviation of Likert scores were calculated. Correlation analysis technique was undertaken to determine whether there was a significant relationship between study variable. However regression analysis was performed so as to test the hypothesis and subsequently model the relationship between the variables. The study found out that board characteristics were positively correlated with corporate governance in state corporations in Kenya. The regression analysis led the study to conclude that Board Characteristics were critical in determining effectiveness of Corporate Governance in State Corporations in Kenya. Consequently the study recommended that stakeholders of State Corporations should enhance Board Characteristics to sustain effective Corporate Governance in these institutions. Finally further research was recommended to include other corporation’s not only state corporations.

Key Words: Corporate Governance, State Corporations in Kenya
1. INTRODUCTION

Corporate Governance can be conceptualized as a set of processes, customs, policies, laws and institutions affecting the way a corporation is directed, administered or controlled, and its purpose is to influence directly or indirectly the behaviour of the organization towards its stakeholders (Dignam and Lowry, 2006). “Corporate Governance comprises a country’s private and public institutions (both formal and informal) which together govern the relationship between the people who manage corporations (corporate insiders) and all others who invest resources in corporations in the country” Oman et al(2003). Accordingly, Corporate Governance involves a set of relationships between a company’s management, its board, its shareholders, and other stakeholders. It also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined (OECD, 2004). Gompers et al. (2003) assert that good Corporate Governance increases valuations and boosts the bottom line of corporations. Claessenset al. (2002) also maintain that better corporate frameworks benefit firms through greater access to financing, lower cost of capital, better performance and more favourable treatment of all stakeholders. Agrawal,(2012)Millstein Mac Avoy, 2003) in their study to investigate the relationship between Corporate Governance and performance showed a mixed results without a clear cut relationship. Traditionally Corporate Governance addresses issues of decision making at the level of the Board of Directors and Top Management to ensure that all decision are in line with the objectives of the company. (Muelbert, 2009).

Recent times have seen the renewal in Corporate Governance interest amongst scholars, practitioners and media alike due to the high-profile collapse of several large corporations, whose governance systems failed to prevent corruption and adequately implement risk management procedures (Ermann and Lundman, 2002). The collapse of major corporations such as the Bank of Credit and Commerce International (BCCI), the Maxwell Empire, Ferranti, and Coloroll in the UK drew the world's attention to this phenomenon. The collapse of Enron and WorldCom and other major corporations in the US in 2002 reinforced interest in Corporate Governance. The Asian economic crisis also contributed to raising the profile of Corporate Governance as the crisis has been linked to poor Corporate Governance practices. The notion of shareholder value, promoted by the conservative governments in the UK and US in the early 1980s, also had a significant impact on Corporate Governance developments (Hoa, 2000).

Related to these disclosures of alleged gross corporate malfeasance, there was also a more widespread erosion of standards throughout the global markets, with questionable and unethical practices being accepted. The net effect has been to undermine the faith shareholders and investors have in the integrity of the world’s capital markets. Researchers in Corporate Governance (Donaldson 2001; Frentrop, 2003) have reported that there is still lack of concurrence on the ideal Corporate Governance structure that could safeguard shareholders’ assets while promoting wealth creation ventures.

Corporate Governance plays a more important role on public companies which have essential effects on social and economic life. The boards of directors of these public companies, which are in the highest level in organization also, have important sharing in effectiveness of Corporate Governance applications. In this study we have examined that, how the boards of directors of public companies should be structured in accordance with Corporate Governance principles.

In order to establish effective Corporate Governance structure in public companies; the functions of the board should be organized appropriately, some of the work of the board should be delegated to committees, attention should be paid in defining the board’s and committee’s sizes, the board members
should have good personal attributes and adequate occupational qualifications, the independence of the board should be provided and the board should fulfill its leadership responsibilities. Bulent (2006).

According to Waweru (2005), there exist marked economic, political and cultural differences between developed and developing countries. They noted that unlike developed countries, most developing countries suffer from lack of skilled/trained human resources, suggesting that companies in developing economies may experience difficulties attracting people with accounting/finance knowledge in their audit committees. Furthermore, cultural differences between developed countries of the North America (highly individualistic) and developing countries of Africa (highly collectivistic) may also lead to different Corporate Governance arrangements..

Firms take two basic approaches to reduce risk, the first approach is to set risk control strategies, the second approach used prior to financial crisis is to shift the risk onto other firms or to generalize the risk to the system. Knott, J.H (2010).

The corporate sector in Kenya at a seminar organized by the Private Sector Initiative for Corporate Governance formally adopted in 1999 a national code of best practice for Corporate Governance. In Ghana, The Ghana Institute of Directors (IoD-Ghana), in collaboration with the Commonwealth Association of Corporate Governance, conducted a survey on the state of Corporate Governance in Ghana over the period 1999-2000. Upon the results of the survey that revealed an increasing acceptance of good Corporate Governance practices by business in Ghana, the Manual on Corporate Governance in Ghana was launched in 2001 (Mensah et al., 2003). The Code of Corporate Governance in Nigeria was adopted in 2003 based on the Report of the Committee on Corporate Governance of Public Companies in Nigeria (Nmehielle and Nwauche, 2004). Whilst The Egyptian Institute of Directors was established in 2004 to create proper awareness among Egyptian corporations and to emphasize the roles and functions of the directors in overseeing corporate activities and attaining corporate goals.

In Kenya, the institutions that have been at the forefront in sensitizing the corporate sector in Kenya on Corporate Governance are: Capital Markets Authority (CMA), Nairobi Security Exchange (NSE), Centre for Corporate Governance (CCG) and Central Bank of Kenya (CBK) which regulates the banking industry. CMA created a major impact in the development of Corporate Governance guidelines in Kenya when it issued the Capital Market Guidelines on Corporate Governance Practice by public listed companies in 2002. These guidelines were published under a gazette notice No. 369 of 25th January 2002 and not a legal notice and therefore do not have the force of law. However, certain guidelines have subsequently been incorporated into legal notice No.60 of 3rd May 2002 as part of the Capital Markets guidelines and are enforceable in law. The stated objective of the CMA guidelines on Corporate Governance is to strengthen and promote the standards of self-regulation and bring the level of governance practices in line with international trends.

It is however important to note that the emphasis in Kenya on good Corporate Governance and accountability to shareholders and stakeholders has been on public listed companies. Stakeholders are considered to be entities that are affected in various ways by the undertakings of an organization (Uzel, 2015). The potential for listed companies being subjected to sanctions for non-compliance by either the CMA or NSE has played an important role encouraging compliance with the guidelines. The Institute of Certified Public Accountants (Kenya) requires its members to report on the Corporate Governance practices of companies they audit. The Institute of Certified Public Secretaries (Kenya) also encourages
its members to ensure compliance with the Corporate Governance guidelines. Both institutions train their members on Corporate Governance issues. The major components of almost all Corporate Governance approaches are transparency, accountability, fairness and responsibility.

The following are instances of Government of Kenya debt restructuring and/or debt write-offs involving commercial state corporations: Agricultural Finance Corporation (AFC) As at June 2002, the indebtedness of AFC to Government of Kenya was Ksh.8.5 billion comprising Ksh.2.1 billion in principal amount and Ksh.6.4 billion in interest. Cabinet approved a write-off of Ksh.8 billion out of the total amount of Ksh.8.5 billion, with the balance of Ksh.500 million remaining in the books as Government of Kenya loans. Kenya Railways Corporation (KRC) As at June 2010, loans on-lent by Government of Kenya to KRC, inclusive of interest and charges, amounted to Ksh.39.993 billion. KRC had defaulted on the repayment of Ksh.1.5 billion loan on-lent to it by Government of Kenya. Based on a revaluation, the value of KRC assets was Ksh.42.4 billion; hence the conversion to equity of Government of Kenya debt amounting to Ksh.39.993 billion was considered feasible and reasonable.

The debt restructuring for the five public sector owned sugar companies including Nzoia, South Nyanza, Chemelil, Muhoroni and Miwani was approved by Government as part of the on-going privatization of the companies. Out of the total Ksh.41,825,786,485 owed to Government of Kenya and Kenya Sugar Board by the five sugar companies, Kshs.33,780,465,838, was approved for write-off in order to clear excess debt from the books of the companies that had excess debt (i.e. debt in excess of assets) namely, Nzoia Sugar Company, Muhoroni Sugar Company and Miwani Sugar Company. The Kshs.33.8 billion written off will be divided proportionately between Government of Kenya and Sugar Board, i.e. based on the respective amounts owed. Further, out of the remaining Kshs.8,045,320,647 after the debt write-off to clear the excess debt, an additional Kshs.5,952,000,000, equivalent to the asset value of plant and machinery, was approved for write-off to facilitate reconstruction of the sugar mills (new plant and equipment).

National Bank of Kenya (NBK) Government of Kenya made a decision to take over debts amounting to Ksh.20 billion owed NBK by state corporations. This decision was made in order to enable NBK meet key statutory/prudential ratios, and hence avert a potential crisis in the financial sector that could arise if NBK went down altogether. It should be noted, however, that this decision did not amount to a debt write-off and discharge in favour of state corporations; the state corporations’ still need to pay Government of Kenya the balances. Outside of Government of Kenya on-lent and direct lending, state corporations undertake borrowings on the strength of their balance sheets. It is largely the commercial state corporations that borrow funds, mainly from the local market. The law requires that such borrowings be approved by Government of Kenya (parent Ministry with the concurrence of the Treasury).

There are notable failures in the history of performance of state corporations in Kenya, including Kenya Railways Corporation, the Numerical Machining Complex, the Kenya Meat Commission and the Kenyatta International Convention Centre amongst others. However, there are also notable successes, which include Safaricom and Kenya Airways.

The literature notes that in developing countries, the state-owned enterprise (SOE) sector is an integral part of socio-economic activity. SOEs are statutorily authorized corporate entities which earn their revenue from the sale of goods and services and in which the government holds a majority of shares (State Corporations Act, 1986). They are also referred to as State Corporations (SCs) or parastatals.
Most state corporations were established to fulfill the social objectives of the state rather than to maximize profits. However, rising stakeholder expectations have forced governments in many countries to reform the Corporate Governance systems of state corporations, with expectations of improving their operations to reduce deficits and to make them strategic tools in gaining national competitiveness (Parker, 1999; Dockery and Herbert, 2000). The implementation of Corporate Governance restructuring included external boards of directors, statements of corporate intent, and business plans (Bradbury, 1999). Unfortunately, state corporations are still deeply implicated in most fiscal problems of African governments because of their inefficiency, losses, budgetary burdens, and provision of poor products and services. Occasionally, they achieve some non-commercial objectives, which are used to justify their poor economic performance (Mwaura, 2007).

Indeed, as early as 1970s, many governments in Africa had recognized the fact that SCs were performing poorly. Poor SC performance was associated with labour rigidities in the market, increased fiscal and foreign debt and inflation problems. State corporations also provided poor and unreliable services, failed to meet demand and were lagging behind in technology areas like telecommunications (Shirley, 1993). It seems this situation has persisted in recent times given that Nyong'o (2005) identified mismanagement, bureaucracy, wastage, pilferage, incompetence and irresponsibility by directors and employees as the main problems that have made SCs to fail to achieve their objectives. He added that Kenya has experienced turbulent times with regard to its Corporate Governance practices in the last two-and-a-half decades, resulting in generally low corporate profits across the economy.

Good Corporate Governance dictates that the Board of Directors governs the corporation in a way that maximizes shareholder value in the best interest of society. Kenya Railways Corporation is a shell of its former self, despite its significant role towards the achievement of the country’s vision 2030. The lack of strategic vision of what this entity could and should do has led to selection of sub-optimal choices that have cascaded negative effects into the wider economy. Numerical Machining Complex (NMC), previously known as the Nyayo Motor Corporation limited represents a significant missed opportunity, pointing to lack of effective translation of strategic vision into tangible outputs contributing to the national development effort. The Kenya Meat Commission is also another missed opportunity for transforming the livestock industry in Kenya. All this has worked to the detriment of the economy and the people of Kenya in terms of lost wealth creation opportunities.

State Corporations were established to fulfill social objectives of the state and therefore the government supports its agencies through funding and training of Board of Directors on good Corporate Governance. However, the number of institutions that continue to collapse in quick succession is alarming, not to mention the many pending cases in our local courts. Almost all the State owned Sugar factories continue to post dismal performance; these include Ramisi Sugar, Chemelil, and Sony Sugar.

The Goldenberg case is still fresh in the people’s minds not to mention the latest Maize scandal at the National Cereals and Produce Board and the National Hospital Insurance Fund (NHIF) scandal that was supposed to provide a health cover for the Public Servants. In August 2001, the Parliamentary Public Investment Committee revealed how directors of the National Social Security Fund abdicated their duties when they awarded themselves executive treats resulting in a loss of three billion Kenyan shillings between 1996 and 1998. (Gicheru, 2001).

In addition, increasing internal debts has decreased the creditworthiness of the country. In deed debts owned by parastatals have paralyzed operations of some local creditors. Reli Corporations Savings and Credit Society sought government intervention to recover 591 Million from Kenya Railways
Corporation while another parastatal, Tana River and Athi River Development Authority that was in the verge of insolvency similarly sought government intervention to recover debts owed to it by Kenya Power and Lighting Company (Mwaura, 2007).

The State Corporations Act (SCA) gives the President a strong measure of control over appointments, allows him to provide for the management of every public corporation established under the SCA and also empowers him to determine composition the of the board of directors. Similarly, due to the political nature of appointments, SC boards are composed of mainly directors who are ex-civil servants with little or no private business experience, and who act in the interests of their appointers rather than the corporation. Subsequently, Mwaura (2007) argues that the poor and ineffective management of SCs can be attributed, partly, to the appointment criteria, which is based on political influence rather than relevant technical expertise.

Other issues afflicting SCs include overlapping regulations. For instance, although all directors and the chief executive of the Communications Commission of Kenya (CCK) are appointees of the minister under the Kenya Communications Act, CCK is still governed by the State Corporations Act (1986) because it is a state corporation. As such, the President is empowered by the State Corporation Act to appoint the chief executive. Additionally, SCs are subject to direct regulation by Parliament. Parliament scrutinizes them under the legislation that establishes them. In most cases, the government exercises control of SCs through Cabinet Secretaries. Since all state corporations fall under a ministry, the cabinet secretary has powers to give directions of a general character to the organization. Such directions may, for instance, be in relation to matters affecting a national interest; in such a situation, a cabinet secretary shall determine what constitutes a national interest (Mwaura, 2007). In view of the aforementioned and the fact that mismanagement of state corporations continues to prevail the need for the current study becomes apparent.

2. LITERATURE REVIEW

2.1 Transaction Cost Theory

The transaction cost theory is generally traced to the work of Ronald Coase (1937), “The Nature of the Firm”. Coase points out that economic organizations exist to minimize transactions costs of trading in markets. In this respect, a firm is viewed as a governance structure for minimizing the cost of trading in the market (Stiles and Taylor, 2002). In terms of this theory, the decision to organize a transaction either through the market or the hierarchy (firm) depends on the efficiency of both forms of coordination in minimizing the cost of that particular transaction. In terms of Corporate Governance, the transaction in question is an investment in a corporation that is not met with payment but with a promise of future return (Dyck, 2001). This theory posits that the board of directors is a mechanism that has arisen to address problems that arise from opportunistic behaviour by managers (Williamson, 1981). The board of directors is argued to have, as its proper role, the protection of shareholder interests. Transaction cost theory however has some limitations in relation to Corporate Governance. The theory does not address itself to the manner in which the board should be organised to be effective in protecting shareholder interests.
2.2 Agency Theory

Agency theory, developed by Michael Jensen and William Meckling (1976), has been fruitfully applied in examining the nature of the relationship in a firm that exists between the principal and the agent (Denise 2001). The principal-agent relationship provides benefits since it allows specialization between shareholders, as risk bearer, and management in the management of the firm. The theory is based on assumptions of goal incongruence between the principal and the agent. It focuses on the relationships that are masked by the basic structure of the principal and the agents who are engaged in a cooperative effort, but have differing goals and differing attitudes toward risk. When an agent pursues risky projects, although they may lead to an increased value of the asset, such a move threatens the job security of the agent. He is therefore not interested in such projects because they are seen as risk since the agent’s preferences or goals differ from the principal's, the agent has an incentive to deviate from the principal’s interests. It is usually assumed that the interest of the principal is to maximize wealth (Denise, 2001). The agent, on the other hand, is interested in a variety of issues such as career goals, large salary, corporate jets, plush offices, and expense account meals. Given this conflict of interests, the agent, if left alone, will pursue his own interests to the detriment of the principal’s. Therefore, the monitoring solutions by shareholders, especially major ones, constitute an important mechanism for encouraging managers not to deviate from shareholder interests.

Where ownership is fragmented, the board of directors is viewed as an alternative mechanism (Jensen, 1993; Denise, 2001; Berglof and Claesens, 2004). This indicates that monitoring by shareholders depends on the ownership structure. Incentives can also be applied to reduce agency costs. They are used to align the interests of shareholders with those of management. The role of markets in Corporate Governance is also discussed under the agency theory. Competitive markets play a significant role in disciplining poor managerial performance. These markets cover products, labour and capital (Jensen and Meckling, 1976).

2.3 Stewardship Theory

The stewardship theory invokes the notion of a company and its governance based on the applicable company law (Tricker, 1994). This theoretical underpinning is a normative one based on the belief that the directors to whom authority is delegated will exercise stewardship. The theory is predicated on the belief in the just and honest man who acts for the good of others. Clarke (1993) cites Japan as a context in which the representation of other stakeholders in the company decision-making organs is considered unnecessary as long as management pursues long-term growth which will benefit the interests of all parties, shareholders included. Stewardship theory appears to be appropriate for explaining Corporate Governance within the communitarian paradigm (Tricker, 1994). This theory is also applied in the liberalist sense for its promise to better service the interests of shareholder.

2.4 Stakeholder Theory

Friedman and Miles (2006) argued that organizations should consider the interests of stakeholders because they influence the performance of firms in various ways. Mitchell and Cohen (2006) highlight that stakeholders bear some risks as a result of their direct or indirect investment in a particular organization. A firm is therefore an interrelationship of various stakeholders who influence the organization both externally and internally.
It is stated that in an organization, stakeholder can either be primary or secondary depending on their relationship with the organization. This is because organizations are different and they harbour different interests. Organizations should develop tactics to respond to the needs of stakeholders in order to prevent the negative effects of stakeholders’ activities. Stakeholders are very important for organizations because they interact with the organization on a day to day basis hence they have a very big influence on the affairs of the business (Fassim, 2008). Stakeholders can either take a cooperative potential or a competitive threat depending on how an organization treats them. Organizations should develop strategies for stakeholder management such as leading, educating, collaborating, defending, educating and motivating stakeholders (Enz, 2008). State Corporations are required to meet the needs of the stakeholders in order to be effective. The government was the major stakeholder and was regarded with utmost importance in this study which brought forth the need for greater collaboration.

Alhaji, (2012) argue that the stakeholder theory is good in explaining the purpose of Corporate Governance by describing different stakeholders that constitute an organization. Some of the stakeholders according to this theory include governmental bodies, political groups, trade associations, trade unions, communities, associated corporations, prospective employees, the general public, competitors and prospective clients. Mitchell and Cohen (2012) assert that economic value is created by people who come together and cooperate to improve everyone’s position.

This study adopted the Stewardship and Agency Theories. The Stewardship Theory is based on the belief that the directors to whom authority is delegated will exercise stewardship and this research sought to determine the relationship between Board Characteristic and Corporate Governance.

The agency theory relates to situations in which one individual (called the agent) is engaged by another individual (called the principal) to act on his/her behalf based upon a designated fee schedule. Mohammed, (2013).Since both individuals are assumed to be utility maximizers, and motivated by pecuniary and non-pecuniary items, incentive problems may arise, particularly under the condition of uncertainty and informational asymmetry.

The Agency theory is based on assumptions of goal incongruence between the principal and the agent (Jensen, 1976). The relationships that are masked by the basic structure of the principal and the agents who are engaged in a cooperative effort, but have differing goals and differing attitudes toward risk. The agent, if left alone, will pursue his own interests to the detriment of the principal’s and thus, the monitoring solutions by shareholders. The research sought to determine the relationship between Agency dimensions (Board Characteristic) and Corporate Governance.

2.5 Anglo-US Model

The Anglo-US model is an outsider model of governance system (Gugler, Muller and Yurtoglu, 2004), in which ownership is dispersed and owners exercise indirect control on management by electing representatives to the board that monitors management. The Anglo-US model is characterised by share ownership of individual and institutional investors not affiliated with the corporation (known as outside shareholders). Equity financing is the common method of raising capital for corporations in the UK and the US. The three major players in the Anglo-US model are management, directors and shareholders.

The Anglo-US system, from which many elements of governance are taken and imitated by others (Witt, 2004), emphasizes the primacy of shareholders (Shleifer and Vishny, 1997) and presumes that top executives primary responsibility is to maximize shareholder wealth (Jensen and Meckling, 1976). This Anglo-American model focuses on a number of governance mechanisms including the
separation of ownership from control, financing through the stock market, and the use of independent directors (Dalton et al., 1998).

In this system, the board of directors’ main tasks is to appoint and dismiss the managers, approve payments and acquisitions and decide on important strategies. Executive directors (who are members of management) and non-executive directors (who are outsiders) operate together in one organizational layer that constitutes the board. Boards are elected by the shareholders at their annual general meetings. As a result of the various Corporate Governance regulations in these countries, the non-executive directors constitute the majority on the board. However, many of the companies still have boards that operate with a board leadership structure that combines the roles of the CEO and the chairman (called CEO-duality). While most companies in the UK have board leadership structure that separates both positions, there are still a few boards in the US that practice CEO-duality. One-tier boards also make use of board committees such as audit, remuneration and nomination committees. In addition the board of directors is in charge of both decision management and decision control. This system of Corporate Governance is also referred to as —stock market capitalism and it relies on external monitoring mechanisms. However, the Enron-type scandals have shown that these external monitoring mechanisms are not sufficient for controlling the discretionary power of top executives (Gomez, 2004). Managers tend to be disciplined by market-based rewards and punishments through capital markets in this system.

3. RESEARCH METHODOLOGY

3.1 Research Design

This study is a quantitative study using a descriptive survey design. Descriptive studies ensure ease in understanding the insight and ideas about the problem. The cross-sectional quantitative data was collected from the state-owned corporation's employees at almost the same point in time using a questionnaire. The benefit of a cross-sectional study design is that it allows researchers to compare many different variables at the same time. We could, for example, look at age, gender, income and educational level in relation to determinants of Corporate Governance levels, with little or no additional cost. Scholars like Gay (1987), said that descriptive survey design involves collecting data in order to test hypotheses or answer questions concerning the current status of the subject of the study, which indeed is the purpose of the current study. It aims at testing of four hypotheses formulated from the review of the literature. This design is further appropriate for this study since Gall, Borg, & Gall (2003) note that descriptive survey research is intended to produce statistical information about the aspects of the research issue (in this case Corporate Governance) that may interest policy makers. The study used a quantitative approach which deals with data that is principally numerical in nature. Bryman (2002) identifies the following characteristics of the quantitative approach; it entails a deductive approach to determine the relationship between theory and research, it incorporates the practices and norms of the natural scientific model; and it embodies a view of social reality as an external, objective reality.

3.2 Target Population

Mugenda(2005) highlights the target population as a number of individuals about which a researcher is interested in describing or making a statistical inference. A population is a group of elements or causes, whether individuals, objects or events, that conform to specific criteria and to which we intend to generalize the results of the research McMillan, (2001). The target population for this study was management employees in 151 State Corporations.
3.3 Sample Size & Sampling Technique

Kothari (2004) suggests that the sample size should neither be too large nor too small. Sampling is particularly useful as it overcomes the impossibility of asking all members of a population their opinion. For the purposes of producing results that can be generalized to the population, systematic random sampling method was applied to select the 46 Corporations. In systematic random sampling the sample is chosen by selecting a random starting point and then picking each “ith” element in succession from the sampling frame. The sampling interval “i” is determined by dividing the population size “N” by the sample size “n” and rounding to the nearest integer.

The 230 respondents were obtained by purposeful sampling technique. Purposeful sampling is a non-probability sampling technique where the respondents selected are only those deemed to have the required information. In this study managers were the ones deemed to have the necessary information regarding Corporate Governance due to their position. Out of the 151 government parastatals the researcher selected 46 (30%) Corporations by systematic random sampling technique.

In this study the sample size formula number (2) by Cronchan for continuous data was deemed appropriate. The formula was appropriate because the five point scale used is a continuous scale. The alpha level was set a priori at .05. The margin of error was set at 3% which is commonly used in educational and social research for continuous data (Krejcie, 1970). The scale standard deviation was estimated at 1.25.

\[
n_0 = \frac{(t_c)^2 s^2}{d^2} \text{  \textit{equation 1}}
\]

Where \( t = \) value for selected alpha level of .025 in each tail = 1.96 (the alpha level of .05 indicates the level of risk the researcher is willing to take that true margin of error may exceed the acceptable margin of error.) \( s = \) estimate of standard deviation in the population = 1.25. (Estimate of variance deviation for 5 point scale calculated by using 5 [inclusive range of scale] divided by 4 [number of standard deviations that include (approximately 95%) of the possible values in the range]). And where \( d = \) acceptable margin of error = (number of points on primary scale * acceptable margin of error; points on primary scale = 5; Acceptable margin of error = .03 [error researcher is willing to except]). Using equation 1, \( n_0 = 266 \). That is;

\[
n_0 = \frac{(1.96)^2 (1.25)^2}{(5 \times 0.03)^2} = 266 \text{  \textit{equation2}}
\]

And since this estimated sample size exceeds 5% of the population (1671*.05=84), Cochran’s (1977) correction formula in equation (3) should be used to calculate the final sample size n. These calculations are as follows:

\[
n = \frac{n_0}{1 + \frac{n_0}{N}} \text{  \textit{equation3}}
\]

Where \( N = 1,671 \). Where \( n_0 = \) required return sample size according to Cochran’s formula= 266. Using equation3, the adjusted sample size was= 229.5. And therefore 230 managers were sampled to take part in this study.
Table 3.1 Distribution of Sample size for each parastatal

<table>
<thead>
<tr>
<th>Category</th>
<th>No of managers</th>
<th>Companies</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managers</td>
<td>5</td>
<td>46</td>
<td>230</td>
</tr>
<tr>
<td>Total</td>
<td>5</td>
<td>46</td>
<td>230</td>
</tr>
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3.4 Data Collecting Instruments

a). Literature Study

Text books, research reports, journals and government gazettes were used to review important Corporate Governance literature. The university libraries were resourceful as various academic online library databases; this was used to source information. An analysis of relevant documents such as codes of conduct and ethics, policy documents were also reviewed to provide insights of current state corporation policy guidelines and practices.

b). Questionnaires

A questionnaire was the main tool of collecting the cross-sectional data from the employee of state-owned corporations. The questionnaire is relatively economical, and has the same questions for all subjects and can ensure anonymity (McMillan & Schumacher, 2001). Also according to Mason and Bramble (1997) a questionnaire enables a larger sample be reached. The disadvantage of the questionnaire is that once the questionnaire has been distributed, it is not possible to modify the items, even though they may be unclear to some respondents and it cannot enquire or examine deeply into respondents’ opinions or feelings (Gall, Borg & Gall, 1996). This research ensured the content validity of the questionnaire before use so as to mitigate the effect of the disadvantages. A pilot study was carried out to refine the final research questionnaire.

The insight gained from the literature study regarding Corporate Governance was used to develop a questionnaire that was divided into three parts. Part one of this instrument is designed to obtain participants’ demographic data -gender, age, managerial experience, and educational background. Part two of the questionnaire comprised of items related to Corporate Governance practices (independent variables). This scale measured participants’ responses toward four identified dimensions of Corporate Governance, namely: board characteristics, director & executive compensation, audit committee characteristics, and legal & regulatory framework. A 5-point Likert scale (1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, 5 = strongly agree) was used to establish current practices. Part three regards voluntary disclosure of Corporate Governance guidelines, codes of ethics, and codes of conduct (dependent variable).

3.5 Data Collection Procedures

The following data collection steps were taken; the researcher wrote to the CEO of each state corporation to request for their participation. The letter entailed the purpose of the study, potential benefits of the results, and a sample of the questionnaire. Secondly, Questionnaires were administered to the Managers and they had 2 weeks to complete and submit.

3.6 Reliability and Validity

In order to test the reliability of the questionnaires, Cronbach’s Alpha coefficient method was examined. According to Pallant (2001) a scale of Cronbach’s Alpha coefficient of 0.70 or above is acceptable. Factor analysis is a statistical technique used to verify the factor structure of a set of observed
variables and their relationship (Field, 2009). It is used to analyze the reliability and convergent validity of the research instrument by identifying and eliminating any items that do not strengthen the factors they represent.

Factor analysis assesses convergent validity through factor loadings values. Factor loadings are numerical values which range from zero (very poor) to one (excellent). Factors which load from 0.5 or less are considered unsatisfactory and discarded from the analysis Kaiser (1974).

3.7 Data Processing & Analysis

A research study produces a mass of raw data, therefore collected data has to be accurately scored and systematically organized to facilitate data analysis (Collins, 2010). In this study, data was collected from managers of State Corporations through a self-administered questionnaire. The Data analysis entails bringing order, structure and meaning to the mass of time consuming, creative and fascinating process Marshall, (1995). The analysis was in two stages; first, descriptive statistics of each construct was used to inspect the characteristics of the study population. Descriptive statistics is a mathematical technique for organizing, summarizing and displaying a set of numerical data (Gall, Borg & Gall, 1996). Central tendency and variability measures was used to describe the values in distributions. In this case: frequencies, percent, mean, and standard deviation measures were applied

Secondly inferential statistics was used to test the null hypothesis. A Statistical Package for Social Science program- SPSS version 24 was used for the entire analysis. Correlation and regression analysis were the main inferential statistics techniques employed in this study to test the hypotheses. Scrutiny of the assumptions of multiple regressions like linearity, constant variance and normality was performed and appropriate measures undertaken if any of the assumptions was violated. The Multiple regression analysis was used to model the relationship between the four independent variables and the dependent variable. This was appropriate in the study because the researcher had one single dependent variable, that is; Corporate Governance which was presumed to be a function of the four independent variables Therefore, the estimated linear regression model for this study was: 

\[ Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \epsilon \]

Where:

\[ Y \] = effectiveness of Corporate Governance (dependent variable).
\[ \beta_0 \] = Constant or intercept which is the value of dependent variable when all the independent variables are zero.
\[ \beta_1, \beta_4 \] = Regression coefficient for each independent variable.
\[ X_1 \] = Board Characteristics
\[ \epsilon \] = Stochastic/disturbance term or error term.

The multiple regression result in chapter four provided the regression coefficients and their corresponding p-values (significance) to be fitted to this estimated model.
4. RESEARCH FINDING

4.1 Factor Analysis on Board Characteristics

In board characteristics, the KMO value was .722 as shown in table 4.1, which falls into the range of being good, Hutcheson, (2009), and therefore the sample size was adequate for factor analysis. Bartlett’s measure tests the null hypothesis that the original correlation matrix is an identity matrix. A significant test means that the matrix is not an identity matrix; therefore, there are some relationships between the variables we hope to include in the analysis. For these data, Bartlett’s test is highly significant ($p < .001$).

Table 4.1 Test for sample adequacy using KMO and Bartlett’s Test

<table>
<thead>
<tr>
<th>Kaiser-Meyer-Olkin Measure of Sampling Adequacy</th>
<th>.722</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bartlett's Test of Sphericity</td>
<td></td>
</tr>
<tr>
<td>Approx. Chi-Square</td>
<td>1763.859</td>
</tr>
<tr>
<td>Df</td>
<td>325</td>
</tr>
<tr>
<td>Sig.</td>
<td>.000</td>
</tr>
</tbody>
</table>

Using principal component analysis; with 26 items, nine factors were retained whose eigenvectors were .7 or more for further analysis. These factors accounted for 65.874% of total variance in board characteristics as shown in Table 4.2. Other factors were not significant hence dropped from further analysis. Table 4.3 shows the initial eigen values, sum of square loadings before and after rotation. Variance explained and variances of each component were also shown. From the result; Component 1 had highest initial total variance of 19.84%, followed by component 2, with 9.508% and the least was component 9 with 4.018% and all these components collectively they accounted for 65.874% of total variance in Board Characteristics in State Corporations in Kenya.
In evaluating what variables to retain that represent board characteristics, the factor loadings were taken into account and the minimum factor loadings were 0.7 which were considered to be moderately high. The factors affecting one variable were all loaded up together and given a name so that the factors were reduced to a minimum of three components using principal component analysis.

The rotated result of the principal component analysis shown in table 4.3 revealed that the factors were extracted into 3 components. Component1 comprised of approve strategy, integrity of financial reporting, affiliation between directors, CEO not a chairman at the same time and chairman is non executive director. Component2 comprised of three items namely; supervision process of disclosure,
process of selection of directors and explicit criteria of selecting directors. And component 3 comprised of one component only; monitoring governance practices. Component 1 factors were named as integrity component 2 named selection criteria and component 3 named monitoring. Therefore all the factors in the board characteristics converged to the three components (factors) and collectively accounted for 65.7% of total variance in board characteristics. Out of the 26 components only 9 were retained for further analysis as shown in rotated component matrix table 4.2.

Table 4.3 rotated Component Matrix

<table>
<thead>
<tr>
<th>Rotated Component Matrix</th>
<th>Component 1</th>
<th>Component 2</th>
<th>Component 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>discuss and approve strategy</td>
<td>.521</td>
<td>.283</td>
<td>-.409</td>
</tr>
<tr>
<td>Integrity of financial reporting</td>
<td>.722</td>
<td>.177</td>
<td>.013</td>
</tr>
<tr>
<td>board monitors effectiveness of governance practices</td>
<td>.162</td>
<td>.132</td>
<td>.851</td>
</tr>
<tr>
<td>supervise the process of disclosure</td>
<td>.004</td>
<td>.667</td>
<td>.240</td>
</tr>
<tr>
<td>Affiliation exists between directors</td>
<td>.710</td>
<td>-.013</td>
<td>.090</td>
</tr>
<tr>
<td>CEO is not a chairman at the same time</td>
<td>.478</td>
<td>.374</td>
<td>-.086</td>
</tr>
<tr>
<td>chairman is a non-executive director</td>
<td>.614</td>
<td>.035</td>
<td>.353</td>
</tr>
<tr>
<td>clear process of selection of directors</td>
<td>.201</td>
<td>.710</td>
<td>-.210</td>
</tr>
<tr>
<td>explicit criteria of selecting directors</td>
<td>.109</td>
<td>.698</td>
<td>.067</td>
</tr>
</tbody>
</table>


4.2 Descriptive Statistics on Board Characteristics

Based on the findings on the first variable; integrity; there were some level of board integrity among the state corporations in Kenya (mean=3.69, SD=.824). This meant that in these corporations, the boards were concerned with integrity in financial reporting, the executive director was not the chairman of the board at the same time and chairman of the board was an independent non-executive director. The distribution of data on integrity was slightly negatively skewed, (-.385, SE=.173). Therefore the data indicated some slight deviation from the normal distribution. On monitoring aspect, boards in state corporations were found to have some noticeable level of monitoring of governance practices (mean=3.64, SD=1.25). However, the standard deviation in this distribution was noticeably high. This indicated the extent of the variations in the responses to the same research question (item) – less concurrence among the respondents. The distribution of the data on monitoring was also slightly negatively skewed therefore the data deviates slightly from near normal. The selection process of the boards in Kenya was found to be averagely fair according to the respondents (mean=3.46, SD=.911). The data was marginally negatively skewed (-.911, SE=.173). Among these three components of board characteristics, Selection process was least rated since it had the lowest mean and integrity was highest.
ranked. Overall, board characteristics were found to be appropriate to support Corporate Governance in state corporations in Kenya.

Table 4.4: Descriptive statistics of Board characteristics of state corporations in Kenya

<table>
<thead>
<tr>
<th>Board characteristics</th>
<th>Mean Statistic</th>
<th>Std. Deviation Statistic</th>
<th>Skewness Statistic</th>
<th>Std. Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bx-integrity</td>
<td>3.6934</td>
<td>.82425</td>
<td>-.385</td>
<td>.173</td>
</tr>
<tr>
<td>Selection</td>
<td>3.4619</td>
<td>.91122</td>
<td>-.321</td>
<td>.173</td>
</tr>
<tr>
<td>Bx-monitoring</td>
<td>3.6429</td>
<td>1.24653</td>
<td>-.659</td>
<td>.174</td>
</tr>
</tbody>
</table>

The estimated regression model for this study was:

\[ Y = \beta_0 + \beta_1X_1 + \varepsilon \]

Where:

- \( Y \) = Corporate Governance (dependent variable, DV).
- \( \beta_0 \) = Constant or intercept-the value of DV when all the independent variables are zero.
- \( \beta_{1-4} \) = Regression coefficient for each of the four independent variables.
- \( X_1 \) = Board Characteristics (BX)
- \( \varepsilon \) = Stochastic (disturbance term) or error term.

Therefore, using the regression beta coefficients in table 4.27c, the fitted regression model for this study was:

\[ Y = .188 + .224BX \]

5. CONCLUSION

Board characteristics were envisaged to be significant determinants of Corporate Governance in state-owned corporations in Kenya. The study found that board characteristics were appropriate to support Corporate Governance. This was measured using three factors (namely board integrity, board selection and monitoring). The overall mean score (3.600) indicated that there were some level of integrity and adequate monitoring and selection criteria; means scores were more than 3.00 (neutral) based on the 5-point Likert scale which ranged from 1- strongly disagree to 5- strongly agree. Board characteristics had a positive and significant correlation with Corporate Governance (\( r = .486 \ p < .001 \)). This corroborates Ashburner (1997), and Carter & Lorsch, (2004) who posits that how Boards interpret their roles and how they operate are key to their effectiveness. Regression result revealed that board characteristics was a significant determinant of Corporate Governance (\( \beta = .399 \ p < .001 \)) and it accounted for about 24.0% of the variations in Corporate Governance. The standard multiple regression analysis revealed board characteristics was a significant factor (\( \beta = .224 \ p < .001 \)) in the Corporate Governance model. Therefore: Board characteristics were a significant determinant of Corporate Governance in state-owned corporations in Kenya. This corroborated Levrau(2004) who found out that board effectiveness was
determined by the extent directors carry out their control and strategic role. The hypothesis that there is a significant relationship between board characteristics and Corporate Governance was supported.

Board characteristics were positively linked with corporate governance, specifically, board integrity, board selection procedures and monitoring have a positive link with corporate governance. Therefore board characteristics were a significant determinant of corporate governance in state-owned corporations. Consequently companies with integrity, proper board membership through competitive selection procedures would have proper governance structures.
REFERENCES


[85]. Lishenganga, J., (2007), Board Meeting Frequency and Firm Performance: Evidence From NSE.


