

**CORPORATE GOVERNANCE PRACTICES OF PRIVATE
HOSPITALS IN THE COAST PROVINCE OF KENYA**

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FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF
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DECLARATION

This is my original work and has not been presented for any degree. Where other sources have been used they have been acknowledged accordingly.

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This research project has been submitted with my approval as the University supervisor.

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DEDICATION

I dedicate this project to my loving family. My greatest appreciation goes to my parents, Rtd. Lt. Col. Kalume and Mrs. Nancy Kalume for their love and support. To my dear siblings Dianne, Breyndae, Grahamme and Garvin; thank you for your love and encouragement.

ABSTRACT

Every industry and or organization should aspire to have a good corporate governance image that enhances the reputation of the industry and or organization making it attractive to customers, investors, suppliers, contributors or donors. Quite a number of studies have been done on corporate governance. Most of these previous studies focused on financial institutions. Others focused on establishing the relationship that exists between corporate governance and performance. The researcher felt that the corporate governance area has not been fully exhausted and therefore focused on the healthcare industry with a main focus on private hospitals. Hence the research was conceived. The aim of the study was to determine the corporate governance practices and corporate governance challenges of the Private hospitals in the Coast province of Kenya. The research methodology used was a cross-sectional census survey. The population of study was made up of fourteen (14) private hospitals but only eleven (11) responded adequately making the response rate 79%. The data was collected by means of a questionnaire. The collected data was analyzed using Statistical Package for Social Sciences (SPSS). New insights on corporate governance practices and corporate governance challenges of private hospitals in Coast province of Kenya have been highlighted. A good number of the surveyed private hospitals in Coast province of Kenya indeed do practice good corporate governance. On the other hand a number of corporate governance challenges are being experienced by the private hospitals. A major challenge identified was the issue of low-income clients in need of their services. Through the study, vital information and critical areas in corporate governance practices pertaining to private hospitals management have been brought out.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Over the years governance has been well thought-out to promote and ensure fairness, accountability and transparency within organizations (Murphy and O'Donohoe, 2006). It is important to take note that for any organization to be able to achieve its mission and vision it has to be established on good corporate governance principles. Corporate governance has become an increasingly important observable fact in recent years first and foremost due to the number of corporate scandals, which has resulted in a decline in shareholder value, a reduction in investor confidence and in some cases significant bankruptcies.

Every organization should aspire to have a good corporate governance image that enhances the reputation of the organization making it attractive to customers, investors, suppliers, contributors or donors. Effective corporate governance is critical to all industries of the economy (Dharwardkar, 2000), including the healthcare industry. This research study aims to determine the corporate governance practices of the Private hospitals in the Coast province of Kenya. As Murphy et al (2006) put it; the issues surrounding the hospitals in today's environment is forcing the study of 'good governance'.

1.1.1 Corporate Governance

Wimmer, Chappelet, Janssen and Scholl (2010) affirmed that Governance is the process of decision making and the process by which decisions are implemented (or not implemented). The researcher agrees with Aras and Crowthe (2011) on the fact that

Governance is the most crucial factor in enabling an organization to take responsibility for the impacts of its decision and activities and to integrate social responsibility throughout the organization and its relationship.

In essence the concept of corporate governance has gained importance in the world today following a number of scandals by companies as Enron (US), Maxwell (UK), Parmalat (Italy), Vivendi (France) and WorldCom (US); and as the President of the World Bank put it, that proper governance of companies will become as crucial to the world economy as the proper governance of countries” (Godfrey, 2002).

Governance is the exercising of power in the management of economic and social resources for sustainable human development. It is a vital in the maintenance of a dynamic balance between the need for order and equality in society, the efficient production and delivery of goods and services, accountability in the use of power, the protection of human rights and freedoms, and the maintenance of an organized corporate framework within which each citizen can contribute fully towards finding innovative solutions to common problems (PSCGT, 2000).

1.1.2 Corporate Governance Practices

Corporate governance practices are the codes of practice governing the operations of the board of directors. These are the codes of best conduct in line with the CCG and they include integrity, objectivity, accountability, openness, honesty, selflessness and leadership. These practices ensure that the sustainability of the organization is secure (Ng’eno, 2009).

The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation such as, the board, the managers, the shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. As Wolfensohn (1999), Uche (2004) and Akinsulire (2006) made known that by doing so, it also provides the structure through which the company's objectives are set and the means of attaining those objectives and monitoring performance. Keasey, Thompson and Wright (1997) affirmed that corporate governance includes 'the structures, processes, cultures and systems that engender the successful operation of organizations'.

1.1.3 Healthcare Industry in Kenya

The healthcare industry is defined in the Medical dictionary (1998) as an economic industry with the provision, distribution and consumption of health care services and related products. Depending on the healthcare system of a given country, the healthcare industry is concerned with the delivering of services for the prevention and treatment of disease and for the promotion of physical and mental well-being. The healthcare industry in Kenya as Wamai (2009) asserted comprises of health facilities as hospitals, hospices, nursing and care homes, medical and dental practices, ambulance transportation, medical training centres, medical laboratories and scientific services, across a range of organisations within the public and private sectors.

In 1948 the World Health Organisation (WHO) (as cited MacLachlan, 2006) defined health is a state of complete physical, mental and social well being and not merely the

absence of disease or infirmity. Achievement of good health is critical in enhancing human development by pushing for a healthy nation capable of taking part in the country's economic, social and political development. Schultz (1993) stated that human health has a major role to play in economic development. There is a direct link between the health of a population and its productivity, and this relationship has been demonstrated in industrial countries, which are now benefiting from years of investment in health services.

Provision of good health services satisfies one of the basic human needs and contributes significantly towards maintaining and enhancing the productive potential of the people. As Pointer and Stilman (2004) put it, governance of healthcare industry is paramount due to its impact on human well-being and the size of this industry on the economy.

1.1.4 Private Hospitals in Coast Province of Kenya

Hospitals are distinguished from other types of healthcare facilities by their ability to admit and care for inpatients. The Free Dictionary.com defines a private hospital as a hospital owned by a for-profit or a not-for-profit organization and is privately funded through payment for medical or healthcare services by patients themselves, by insurers, or by foreign embassies. All private hospitals in Coast province are listed in the Master Facility List (MFL) accessible through www.ehealth.or.ke.

Private hospitals include both for-profit and not-for-profit hospitals. Most private hospitals are located in Mombasa County and sparsely distributed in the other counties. The private hospitals supplement the level 4 and level 5 government hospitals (Muga,

Kizito, Mbayah, Gakuruh, 2005) for a range of healthcare services. According to Devereaux, Choi, Lacchetti, Weaver, Schünemann, Haines, Lavis, Grant, Haslam, Bhandari, Sullivan, Cook, Walter, Meade, Khan, Bhatnagar, Guyatt (2002) not-for-profit hospitals are those owned by religious organizations, communities, regional health authorities or the hospital boards. Devereaux et al (2002) argue that for-profit hospitals look at healthcare as a business, with a financial bottom line that produces profits distributed to shareholders.

Costly patient charges by for-profit hospitals as studied by Devereaux, Woolhandler, Young (2004) emerges as some of the issues surrounding corporate governance aspects of private hospitals. Other governance issues are mortality rates, quality of care, overhead costs that are considered extraordinary, billing fraud and inadequately trained staff. Governance in the healthcare industry is paramount due to its impact on human well-being and the size of the healthcare industry on the economy (Pointer et al, 2004).

1.2 Research Problem

Corporate governance entails the structures or framework put in place through which the organizations are managed. It goes beyond the aspects of financial matters, economic matters extending to societal issues surrounding the organization. Corporate governance practices further includes the actions and ethos of the organization in fulfilling its goals by advocating for fairness, accountability, transparency and independence. Corporate governance has become important throughout society following the publicized scandals of world renowned organizations consequently good corporate governance is said to be

the cornerstone of well-managed organizations. Corporate governance plays a very critical role in organizations by ensuring that they achieve the overall purpose, realize its intended outcomes for clients while also ensuring it operates in an effective, efficient and ethical manner. Good Corporate governance practices guides organizations towards earning and maintaining the trust and interests of both shareholders and stakeholders. Corporate governance is one thing but of more importance is how it is practiced and the practices adopted. This is what makes a difference. Hence this study seeks to survey the corporate governance practices of private hospitals in Coast province of Kenya and establish the challenges.

Healthcare institutions to be precise hospitals are still considered as organizations and are therefore governed in a certain way to ensure that they attain their objectives. The private hospitals in coast province have been faced with issues ranging from safety of patients, rising operating cost, medical errors, treating uninsured patients, client discrimination on racial grounds, declining revenues, health insurance predicament to rising competition between hospitals. All these suggestions put to question whether these hospitals practice corporate governance and the kind of corporate governance practices adopted. Some hospitals have projected quite a positive image possibly due to their corporate governance practices. Hence it is imperative to find out whether these private hospitals in Coast province of Kenya practice corporate governance and the practices adopted and possibly the challenges that come with it.

A number of research studies have been done in Kenya, mentioning a few (Mugwang'a, 2008; Rukaria, 2009; Ng'eno, 2009; Kimanga, 2010; Mwango, 2010) on corporate governance practices in various sectors. Most studies have been in financial services sector and quite a number in agriculture, public sector, labour, non-governmental organizations (NGOs) and communications. Notably in the healthcare industry a study by Mugwang'a (2008) showed that public hospitals in the Coast province of Kenya are practicing good Corporate Governance. The researcher did not find a study on corporate governance practices of private hospitals in Kenya hence the motivation to study the corporate governance practices of Private Hospitals in the Coast Province of Kenya. The following research questions will be addressed. What are the Corporate Governance practices of Private Hospitals in the Coast Province of Kenya? What Corporate Governance challenges are encountered by Private Hospitals found in the Coast Province of Kenya face?

1.3 Research Objectives

The study has two objectives:

- i. To determine the Corporate Governance practices of Private Hospitals in the Coast Province of Kenya.
- ii. To determine the Corporate Governance challenges of Private Hospitals in the Coast Province of Kenya.

1.4 Value of the study

The study gives new insights on corporate governance practices of private hospitals and therefore acts as a guide into future research; while also contributing to existing knowledge in other fields. Future researchers in different fields of study are likely to benefit from the study which acts as a source of literature and therefore add more vital knowledge to that which already exists paving way for more insights. The study propels the understanding of corporate governance to a new level and contributes a whole new contextual perspective to the body of knowledge. The study adds to the few available academic literature on corporate governance practices of private hospitals.

To practitioners, who are among the different stakeholders in the hospital setting, the study is a source of vital information highlighting how corporate governance is important for the success organizations and in attaining the organization objectives. Moreover, through the study corporate governance practices of the various private hospitals are appreciated and which probably may lead to change of practice with regards to corporate governance where applicable consequently improving the corporate affairs and corporate values of the facilities. To managerial practice the study taps into the knowledge and thus adopts them into their practices in order to be able to meet the goals of the organization and also improve their performance.

The study is a source of information to various policy makers with regards to governance issues adopted by the private hospitals; hence making the policy makers better informed in their decision making and in finding practical solutions to problems pertaining to governance. Since corporate governance is an issue of worldwide importance it is equally

important that the policy makers understand corporate governance and the practices to be able to come up with decisions that is worthwhile for promoting economic development and also social/societal progress. They need to understand that good corporate governance drives international growth, providing efficient and effective products and infrastructure.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter entails a review of relevant literature on corporate governance providing the background and justification for the present study. It highlights previous literature built around corporate governance. The chapter has also captured literature on corporate governance practices, the challenges of corporate governance and finally, literature on corporate governance in healthcare is highlighted.

2.2 Concept of Corporate Governance

Eells (as cited in USAID Leadership, Management, and Governance Project, 2011) first documented the use of the word “corporate governance” in the 1960’s to denote “the structure and functioning of the corporate polity.” Theoretical exploration of corporate governance is rather new though the practice is ancient. Corporate governance concept began to be used and spoken in the 1980s (Parker, 1996). Fletcher and Vinten’s study (as cited in Mulili and Wong, 2010) showed that corporate governance originated in the 19th Century when incorporation was being advocated for as a way of limiting liability. Corporate Governance, as Shleifer and Vishny (1997) took note, is an important concept to every organization.

The Cadbury Committee Report (1992) refers to corporate governance as the system by which companies are directed and controlled. Sun and Tobin (2005) mentioned that corporate governance can be defined in numerous ways. Demb and Neubauer study (as

cited in Mulili et al, 2010) illustrated each author formulates a definition appropriate for their theme. Corporate Governance as Mudibo (2005) defined it as the system by which a corporation is directed, controlled and held accountable for the manner in which power is exercised in the stewardship of its assets and resources to increase and sustain shareholder value and satisfy the needs and interests of all stakeholders. Tayan and Larcker (2011) defined corporate governance as a system of checks and balances. Fama and Jensen (1983) suggest that without governance controls, managers' interests are more likely to deviate from the interests of the shareholders. The OECD principles (2004) states that Corporate Governance involves a set of relationships between a company's management, its board, its shareholder and other stakeholder.

Corporate governance is built on four (4) pillars which lead to a firm's integrity and competence (Fremond and Capaul, 2002; Fernando, 2009). They include accountability, transparency, fairness and disclosure (See figure 1). Well governed organizations have more value addition to their stakeholders, employees and communities whereas poorly governed organizations cause losses of investor's funds, jobs and pensions and undermine the confidence of the investors. Hence therefore corporate governance ensures organizations are better contributors to the national economy and society (Fernando, 2009).

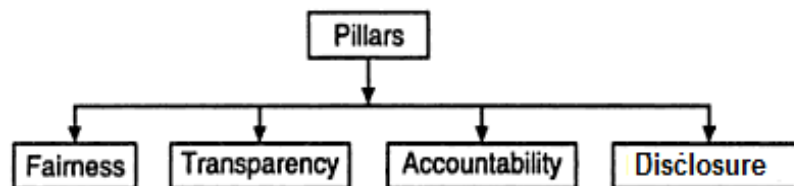


Figure 1: Pillars of Corporate Governance (Source: Balachandran & Chandrasekaran, 2009)

2.3 Corporate Governance Practices

Renewed interest in corporate governance practices of contemporary organizations has arisen mainly in relation to accountability, transparency, disclosure, fairness (Fremont et al, 2002) and effectiveness following the collapse of various large corporations during the years of 2000s, most of which involved accounting fraud. Corporate scandals of various forms have maintained public and political interest in the regulation of corporate governance.

Corporate governance practices refer to the principles of corporate governance as highlighted by Cadbury Report, Sarbanes-Oxley Act, OECD (as cited in USAID Leadership, Management, and Governance Project, 2011) and the Center for Corporate Governance (CCG) the former Private Sector Initiative for Corporate Governance (PSCGT). The corporate governance principles include respect for the rights of shareholders, equitable treatment of all stakeholders, role of stakeholders in corporate governance, responsibilities of the board, transparency and disclosure (Fremont et al, 2002). Good corporate governance practices dictate that the Board of Directors governs the corporation in a way that maximizes shareholder value and in the best interest of society (Cornelius, 2005). It is neither in the long-term interest of the enterprise or society to short-change customers nor engages in corrupt practices.

As Gatamah (2002) puts it corporate governance practices have gained interest because prosperity of nations, communities and individuals are closely linked with the ability to create, strengthen and maintain profitable, competitive and sustainable enterprises.

Investors' especially collective investment institutions and pension funds acting in a fiduciary capacity realize they have a role to play in ensuring good corporate governance practices, thereby underpinning the value of their investments (OECD, 2004).

Hutchinson and Gul (2004) noted that specific industries adopt particular corporate governance practices. Corporate governance practices henceforth vary significantly among companies (Nam & Nam, 2004). There is a need to develop systems for monitoring and evaluating compliance with good corporate governance practices. (Gatamah, 2002)

2.4 Challenges of Corporate Governance

Corporate governance challenges are roadblock encountered by an organizations management, board of directors and shareholders in their endeavour to effectively lead an organization and deliver on their promise (Ng'eno, 2009). Organizations require an environment where all stakeholders are convinced of fairness, accountability, transparency and disclosure (Fremont et al, 2002).

Gatamah (2002) highlighted that weak monitoring and control systems tend to pose as a threat to good corporate governance practices. Organization culture and politics have combined to bring about resisting efforts to promote good corporate governance practices. In his article Gatamah (2002) indicated that enforcement remains the primary problem in organizations. The capacity of regulators to enforce compliance with the law is terribly weak in that they lack the resources both human and material to be effective.

Conflict of interest can be a challenge, both between different stakeholder groups and for individual managers or directors as they try to balance these various interests (Johnson and Scholes, 1999). Legal and regulatory systems are weak, and capital and financial markets are underdeveloped and in most countries non-existent (Gatamah, 2002). Social inequalities are prevalent. Poverty as Nam & Nam (2004) concurs with Gatamah (2002) is a challenge to corporate governance. People are not meaningfully involved in the formulation and implementation of development plans. To be successful, efforts to improve corporate governance (including disclosure) in organizations and countries must be cognizant of these challenges as well as other related issues. These related issues include the great diversity of enterprises, the complexity of the ownership structures, weak legal and regulatory systems, poor political and governance where institutions are absent, underdeveloped and ineffective, small volatile and financial markets, and an unenlightened and dependent populace. (Gatamah, 2002)

The need for further legal, regulatory and policy reform is paramount, this is recommended in the Financial Reporting Council (October, 2010). The capacity of regulatory authorities to enforce the law must be addressed. Systems for monitoring and evaluating compliance with good corporate governance practices and strengthening the incentives for good corporate governance must be developed (Mulligan, 2007). To maximize effectiveness, they must be coupled with effective networks for research to document good practices and demonstrate their benefits to encourage their replication as well as identify bad practices and their effects so as to discourage them. Self-regulation must also be strengthened.

2.5 Corporate Governance in Healthcare Industry

The Audit Commission, *Corporate Governance in Health Organizations* (2002) defined corporate governance in relation to healthcare as “The systems and processes by which health bodies lead, direct and control their functions, in order to achieve organizational objectives and by which they relate to their partners and wider community.” In this case the definition of corporate governance (Cadbury Committee, 1992) was amended to suit healthcare sector reflecting the relationship with the community. As demonstrated by Jasper and Jumaa (2005), Corporate Governance in healthcare entails the non-clinical aspects of healthcare provision that is ensuring financial and operational success by demonstrating value for money.

King and Richter (2004) study’s illustrated how hospital administration has long been heavily regulated and the emphasis on corporate governance in the wake of the Enron Corporation scandal has served to increase oversight of health care. As World Health Organization (WHO) states, governance involves ensuring strategic policy frameworks exist and that they are combined with effective oversight, coalition building, the provision of appropriate regulations and incentives, attention to system-design, and accountability.

As Hunt and Backman (2008) revealed, governance involves overseeing and guiding the whole healthcare system, private or public, in order to protect the public interest. It requires both political and technical action, because it involves reconciling competing demands for limited resources, in changing circumstances, for example, with rising expectations, more pluralistic societies, decentralization or a growing private sector.

Experience suggests that there are some key functions common to all healthcare systems, irrespective of how they are organized. Regulation, designing regulations and incentives and ensuring they are fairly enforced. System design, ensuring a fit between strategy and structure and reducing duplication and fragmentation. Accountability, ensuring all health system actors is held publicly accountable. Transparency is required to achieve real accountability (WHO, 2007).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The study sought to establish the corporate governance practices of private hospitals in Coast province of Kenya including the corporate governance challenges. Creswell (2007) asserted the importance of illustrating the research methodology as an effective approach to increase the validity of a research. Hence this chapter in essence details the research methodology employed in the study, the research design, population of the study, data collection and finally analysis of the data. All this is adequately explained.

3.2 Research Design

The study basically sought to find out the corporate governance practices adopted by private hospitals in Coast province of Kenya. The cross-sectional census survey was the most appropriate research design (Fowler, 1993) for the study. The function of research design as De Vaus (2001) argued is to ensure that the evidence obtained enables us to answer the initial question as clearly as possible.

A cross sectional census survey examines a set of subjects at a particular point in time as it has been demonstrated by Fowler (1993), Nachmias (1992) and Trochim (2006) when studying the entire population of interest. A cross sectional census survey has the advantage of collecting accurate and reliable data from each and every study unit and hence makes it possible to make comparison (Mugenda & Mugenda, 2008). Creswell (1994) stated that the descriptive research is for gathering information about the present

existing condition. The data obtained was used to formulate rational and sound conclusions and recommendations for the study.

3.3 Population of Study

The population of study was selected from all the private hospitals in the Coast province of Kenya. The private hospitals are situated in different counties in Coast province. A research population as defined by Castillo (2009) is a well-defined collection of individuals or objects known to have similar characteristics.

The population of study in this case was picked from a large number of hospitals (as listed in Master Health Facility List (MFL)) accessible on the www.ehealth.or.ke. The private hospitals are offering a vast range of healthcare services but those that qualify for this study are those hospitals offering wide range of healthcare services, have specialists, including both inpatient and outpatient services. According to the MFL list (as at 24th July 2012) the hospitals were many in number but out of these, only fourteen (14) private hospitals (see Appendix. 3) were studied as a census.

3.4 Data Collection

The data was collected through questionnaires. A questionnaire as illustrated by Malhotra (2006) enables quantitative data to be collected in a standardized way so that the data are internally consistent and coherent for analysis. A cover letter (see Appendix 2) detailing purpose of the study and emphasis on confidentiality of the information was sent to the respective private hospitals. Phone calls were made for follow up purposes.

The questionnaire (see Appendix 1) is divided into four (4) sections. Section A highlighted the background information of the respective private hospitals. Section B highlighted the corporate governance practices. Section C highlighted the corporate governance challenges encountered by the relevant private hospitals. Section D highlighted additional information. The relevant respondents for the study were directors or CEOs.

3.5 Analysis of Data

The data analysis entailed computation of the mean scores. Bogdan and Biklen (1992) described data analysis as the process of systematically searching and arranging the data collected to increase the researchers understanding and to enable the researcher present the findings to others.

To address the first objective of the study the mean scores which form part of descriptive statistics were computed and therefore served purpose of determining the popularity of various corporate governance practices. The measures of association and correlation analysis (Colignatus, 2007) were done to relate the various corporate governance practices with the different demographic attributes of the private hospitals. For the second objective the mean scores were computed including the measures of association and correlation analysis to relate the various corporate governance challenges with the different demographic attributes of the private hospitals.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter details the data analysis and presentation of the data collected. The results thereof and discussions are also covered. The study aimed at determining the corporate governance practices of private hospitals in the Coast province of Kenya. The study also sought to determine the corporate governance challenges of private hospitals in the Coast province of Kenya. The data was collected through census. The data was then coded, summarized and presented using the Statistical Package for Social Sciences (SPSS) tool. The data analysis was illustrated using frequency tables, graphs and pie-charts.

4.2 Demographic Information

The population study was made up of fourteen (14) private hospitals (refer to Appendix 3) in Coast province of Kenya where the respondent was either the CEO/Director or the doctor-in-charge. Out of the 14 private hospitals, only eleven (11) private hospitals responded adequately. Consequently, the response rate is 79%.

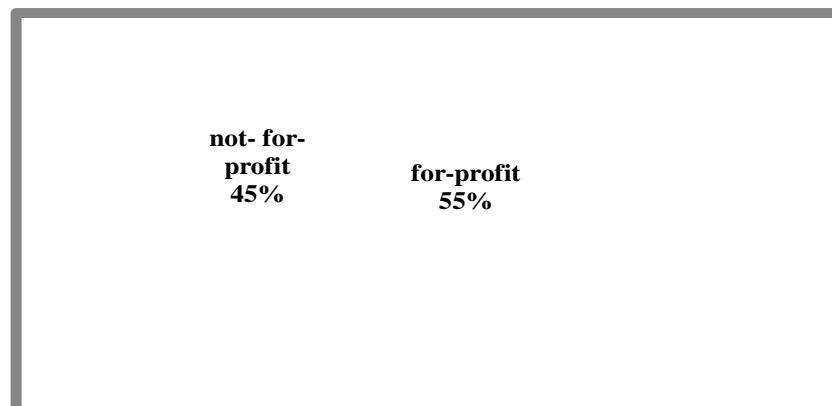


Figure 2: Type of ownership

From analysis, as seen in the diagram above, the private hospitals fall into two (2) major categories on the basis of the type of ownership. These categories are for-profit and not-for profit. The for-profit private hospitals represent 55% of the private hospitals whereas, 45% represents the not-for-profit private hospitals in Coast Province of Kenya.

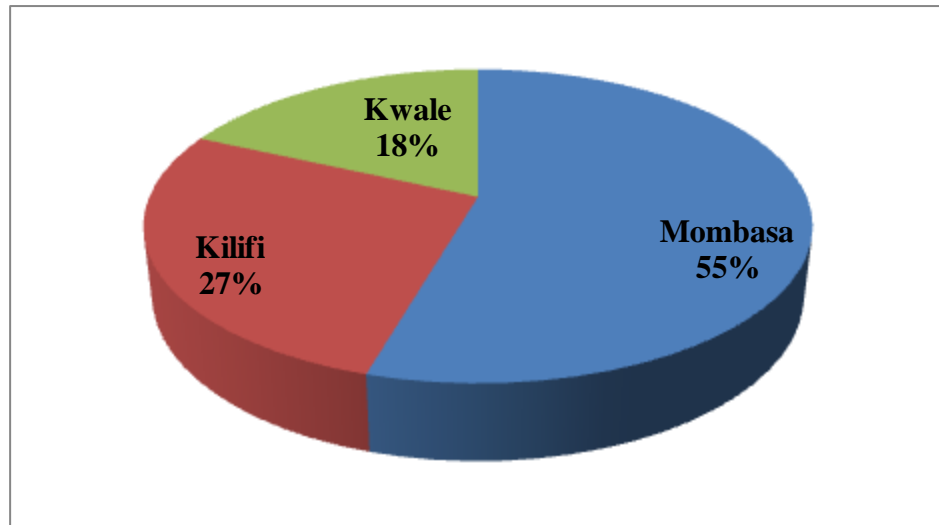


Figure 3: Private hospitals as per county

The diagram above illustrates the percentage of private hospitals per county in Coast province of Kenya. The findings show that the private hospitals are located in the three (3) counties, namely Mombasa County, Kilifi County and Kwale County. Mombasa County appears to have the highest number of private hospitals where as Kwale county has the least.

4.2.1 Number of Beds

As clearly depicted in table 1 below the private hospitals have been grouped according to the number of beds. The highest percentages are represented by group (11 to 20 beds) and group (31 to 40 beds). The least percentage is depicted by group (21 to 30 beds).

Table 1: Size According to the Number of Beds

Number of beds	Frequency	Percentage
11 to 20 beds	4	36.4%
21 to 30 beds	1	9.1%
31 to 40 beds	2	18.2%
Above 40 beds	4	36.4%
Total	11	100.0%

4.2.2 Number of doctors

From table 2 below, the private hospitals have been grouped according to the number of doctors. The numbers of doctors in these hospitals highly fall under the group (below 10 doctors).

Table 2: Size According to the Number of Doctors

Number of doctors	Frequency	Percentage
Below 10 doctors	7	63.6%
11 to 20 doctors	4	36.4%
Total	11	100.0%

4.2.3 Years in existence

From table 3 below, the private hospitals have been grouped according to the number of years they have been in existence i.e. their ages in years. As illustrated most hospitals have been in existence between (11 to 20 years) whereas the least have been in existence between (31 to 40 years).

Table 3: Number of Years in Existence

Number of years	Frequency	Percentage
Below 10 years	2	18.2%
11 to 20 years	4	36.4%
21 to 30 years	2	18.2%
31 to 40 years	1	9.1%
Above 40 Years	2	18.2%
Total	11	100%

4.3 Corporate Governance Practices

The first objective of the study was to determine the corporate governance practices of private hospitals in Coast province of Kenya. The objective sought to answer the following research question: What are the Corporate Governance practices of Private Hospitals in the Coast Province of Kenya? The response for the first objective was rated on a 5-point scale; where 1=Not at all, 2=little extent, 3=Moderate extent, 4=Great extent,

5=Very great extent. Using the SPSS (Statistical Package for Social Sciences) for analysis, the mean score for each corporate governance practice was ranked (See table 4 below).

Table 4: Corporate Governance Practices

Corporate Governance Practices	Mean	Std. Deviation
BOD adoption of the vision/mission statement	5.00	0.00
BOD formulated a corporate strategy and announced significant policies	5.00	0.00
Board's accountability is made with respect to its duties and responsibilities	4.91	0.30
Clear definition of BOD functions	4.82	0.41
Board members access to /are made aware of all the relevant information to do their work effectively	4.73	0.47
Clear definition of the functions of director/CEO	4.64	0.51
Corporate governance structure	4.55	0.52
Disclosures are made with regards to remunerations and benefits	4.55	0.52
Ensuring accuracy of financial information	4.55	0.52
BOD ensures implementation of an effective system of internal control	4.55	0.52
Ensure independence of the board of directors or board members	4.45	0.69
Board holds senior management accountable	4.36	0.67

Quality of the external auditor is ensured	4.27	0.79
Appropriate policies and procedures are in place to ensure equality treatment of staff and clients/customers	4.27	0.47
Incentives are aligned such that board members can fulfill their responsibilities in the long term	4.18	0.75
Board members have the required qualification/expertise and knowledge to monitor governance issues at the hospital	4.09	0.54
Review of corporate governance structure and practices	3.82	0.60
Board composed of physicians	3.18	1.08
Grand Mean	4.44	

The higher the mean score for the respective corporate governance practice then the greater it is being practiced. From the analysis (see table 4), the highest mean score=5.00. Mean score 5.00 is represented by the following 2 practices, Adoption of the mission/vision statement by the Board of Directors and Board of Directors formulate a corporate strategy and announce significant policies respectively. The lower the mean score for the respective corporate governance practice then the least it is being practiced. From the analysis as shown in table 4, the least mean score=3.18. Mean score 3.18 is represented by the following practices, Board composed of physicians only.

4.4 Corporate Governance Challenges

The second objective of the study was to determine the corporate governance practices of private hospitals in Coast province of Kenya. The objective sought to answer the following research question: What Corporate Governance challenges Private Hospitals found in the Coast Province of Kenya face? The response for the second objective was rated on a 5-point scale; where 1=Not at all, 2=little extent, 3=Moderate extent, 4=Great extent, 5=Very great extent. Using SPSS (Statistical Package for Social Sciences) for analysis, the mean score for each corporate governance challenge was ranked (See table 5 below).

Table 5: Corporate Governance Challenges

Corporate Governance Challenges	Mean	Std. Deviation
Low-income clients who need your services	4.91	0.30
Implementing the corporate governance practices	4.36	0.67
Difficulty of meeting and achieving corporate governance practices	4.00	0.63
Treating of uninsured clients	3.91	0.70
Advances in technology	3.64	0.67
Rising operating cost	3.45	0.52
Declining revenues	3.27	0.65
Competitors	3.18	0.75
Managing a diverse group stakeholders	2.91	1.14

Health insurance predicament	2.91	0.54
Staff turnover	2.64	0.67
Fraud issues	2.45	0.52
Inadequate equipment	2.45	0.69
Unresolved conflicts	2.36	0.51
Challenges of diversification and vertical integration	2.18	0.75
Complaints from clients on safety patients	1.91	0.54
Issues of sub-standard care services	1.82	0.60
Medical errors	1.82	0.41
Difficulties of maintaining confidentiality	1.64	0.51
Client discrimination on racial grounds	1.00	0.00
Grand Mean	2.84	

The higher the mean score then the greater is the corporate governance challenge being encountered. From the analysis as shown in table 5, the highest mean score=4.91. Mean score 4.91 is represented by the following challenge, Low-income clients who are in need of the private hospital's services. The lower the mean score then the least is the corporate governance challenge being encountered. From the analysis as shown in table 5, the least mean score=1.00. Mean score 1.00 is represented by the following challenge, Client discrimination on racial grounds.

4.5 Discussions of Findings

From the analysis, it has emerged that most of private hospitals in Coast province are found in Mombasa County. A number of reasons exist as to why more private hospitals in Coast province are located in Mombasa County as compared to other Counties in the same province. One of these reasons is that Mombasa County is more developed than the rest of the counties and the fact that Mombasa in itself is the second largest city in Kenya. From the analysis, there are more for-profit private hospitals than not-for-profit private hospitals in Coast province. This finding is in agreement to a study by Turin (2010), illustrating that 34 % of the hospitals in Kenya are for-profit private where as 15% are not-for-profit private.

As depicted from analysis, the adoption of the mission/vision statement by the Board of Directors (BOD) as a corporate governance practice is greatly practiced by private hospitals found in Coast province of Kenya. The findings concur to an article by Hundert and Crawford (2002) highlighting the inevitability of planning in hospital corporate governance and management. They describe the importance of establishing a Strategic Plan having a mission and vision statement. The other corporate governance practice that the private hospitals in Coast province practice greatly is where the board of directors (BOD) formulates a corporate strategy and announces significant policies respectively. This findings are in agreement to an article by Hundert and Crawford (2002) describing the structure and process of the board, the information to be provided to board members; all with a view to permitting boards to achieve their primary function: to make good decisions.

The corporate governance practice that is least practiced is where the Board is composed of physicians only, as members. This therefore implies that the private hospitals in Coast province of Kenya have mastered the corporate governance practice of ensuring that their board members are from different fields. This finding is clearly illustrated in the UNCTAD report (2006) where the board members should be from different fields so that together they can share strategic ideas and be able to handle corporate governance issues adequately. Hospitals in general are complex organizations. Thus, there is a wide array of competencies that a board should collectively possess in order to effectively carry out its mandate.

On the other hand the greatest challenge as illustrated is where low-income clients are in need of the private hospital's services. This directly points to poverty as a challenge. This finding in essence was illustrated by Nam & Nam (2004) and Gatamah (2002). This turns out to be even more challenging to for-profit private hospitals where they are likely not to give services to clients who are not capable of paying for the services rendered. This is in agreement to Jasper and Jumaa (2005) who illustrated that Corporate Governance in healthcare entails the non-clinical aspects of healthcare provision that is ensuring financial and operational success by demonstrating value for money. Unlike not-for-profit private hospitals their main objective is reflecting the relationship with the community. The very least kind of challenge the private hospital are facing is the issue of client discrimination on racial grounds. This is to say that clients are not racially discriminated. This finding is not in agreement to Stepanikova and Cook (2001), who argued that uninsured patients were more likely to experience racial and ethnic bias.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter demonstrates the summary of the research findings, the conclusion, the recommendations, limitation of the study and suggestions for further research. Looking back, chapter one highlighted the background of the study, research problem, research objective and value of the study. A review of the literature relevant for the study was covered in the second chapter. The following chapter detailed the necessary material on research methodology. Chapter four on the other hand presented the data collected in its analyzed form.

5.2 Summary of Findings

The research study had two (2) objectives. The first objective was to determine the corporate governance practices of private hospitals in coast province of Kenya. The second objective was to determine the corporate governance challenges encountered by private hospitals in Coast province of Kenya. The population study was made up of fourteen (14) private hospitals (Refer to Appendix 3). Out of the fourteen (14) private hospitals only eleven (11) private hospitals responded sufficiently. The response rate hence was at 79%, which is ample for drawing conclusions. The respondents for the study was either the CEO/Director or doctor in-charge.

The study established that the private hospitals can be grouped into two (2) major categories on the basis of the type of ownership. That is for-profit and not-for-profit.

Majority of the private hospitals are found under the for-profit type. It also came out clearly that these private hospitals are not equitably distributed in the six (6) counties of Coast province of Kenya. The private hospitals have been seen to be found in only three counties namely; Mombasa, Kilifi and Kwale counties. Out of these three counties Mombasa County appears to have more private hospitals followed by Kilifi County and finally Kwale County.

The private hospitals in Coast province of Kenya are greatly putting to practice the corporate governance practices as clearly illustrated from the analysis. They are aware of the importance of upholding the corporate governance practices. This is good for the current and future running of the private hospitals, their stakeholders and shareholders at large. With the ranking of the means scores for the challenges it came out clear that there are number of challenges that are greatly encountered than others.

5.3 Conclusions of the Study

The research study has achieved its objectives, given that it had two objectives. The first objective was to determine the corporate governance practices of private hospitals in Coast province of Kenya. The second objective was to determine the corporate governance challenges of private hospitals in Coast province of Kenya. Though there were a few failed responses, the research was successful given that a response rate of 79% was achieved. Using Statistical Package for Social Sciences (SPSS) the data was analyzed and presented.

From the analysis, it is evident that a good number of the surveyed private hospitals in Coast province of Kenya indeed do practice good corporate governance. The greatly practiced corporate governance practices include the adoption of the vision/mission statement by the Board of Directors (BOD) and the formulation of a corporate strategy by the BOD and later announcing significant policies. The least practiced corporate governance practice is where the board is composed of physicians only. A number of circumstances pose as corporate governance challenges. Through the mean score ranking it was established that giving service to low-income clients is a very great challenge given that the private hospitals are faced with the issue of rising operating costs and declining revenues especially during the harsh economic times. The least of the challenges being encountered is the issue of client discrimination on racial grounds.

The study has also contributed to corporate governance literature that relates to the managing of private hospitals and steering them ahead to fulfill their mission and vision. Through the study, vital information and critical areas in corporate governance practices pertaining to private hospitals management have been brought out. This is equally important for the success of the private hospitals and in attaining the organization objectives.

5.4 Limitations of the study

Private hospitals are many and vastly distributed in Kenya but the study focused only on those found in Coast province. The study therefore left out the other parts of the country. The findings here in cannot therefore be generalized as common. The healthcare industry is made up of many other healthcare facilities but the study in this case only focused on

the private hospitals leaving out the other healthcare facilities such as maternity and nursing homes. A number of the private hospitals selected for the study did not want to take part in the study claiming that the matter was first to be discussed by the board. This would however take much time posing as a challenge to the whole research study.

5.5 Suggestions for further research

New insights on corporate governance practices and corporate governance challenges of private hospitals in Coast province of Kenya have been highlighted. Some of the challenges experienced and practices carried out by these private hospitals are common to other healthcare facilities while in other circumstances uncommon to all healthcare facilities. This therefore calls for research for the same for other healthcare facilities in different geographical location. All in all this study has contributed to the body of knowledge and paved way for future research. An interesting and crucial area to be researched would be of how corporate governance relates or affects the quality of service delivery in healthcare facilities, either privately owned or publicly owned.

5.6 Recommendations for Policy and Practice

Corporate governance practices should be highly regarded in every organization. The private hospitals including other healthcare facilities for that matter should not be left out. Organizations should establish and review their corporate governance structures as this contributes greatly to the inward success and outward success of the organization. More so corporate governance structures should be disclosed. The board should disclose structures established to prevent conflicts between the interests of all the relevant stakeholders, and those of shareholders. Hospitals including the private hospitals are complex organizations operating in complex environment. It is therefore important that the boards be equally

competent in various areas to be able to carry out its duties and responsibilities effectively. This therefore implies that the board should be made up of members from diverse fields. This therefore should avoid instances where the board members are physicians or medics only.

Hospitals at large including private hospitals are faced with a number of corporate governance challenges. Upholding to good corporate governance practices is important for the backing-up of good organization practices, risk reduction and transparency. Equally, ethics management has become more common in organizations thus it will ensure that good business practices are adhered to. This therefore goes a long way in ensuring that systems are put in place to deal with emerging risks, medical errors and treating of uninsured clients.

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World Health Organization (WHO)

APPENDICES

Appendix 1: The Questionnaire

Thank you for your participation in this Survey.

The Survey aims at establishing the corporate governance practices and challenges of Private Hospitals in Coast Province of Kenya.

The questionnaire is divided into 3 sections:

Section A: Background information

Section B: Corporate governance practices

Section C: Corporate governance challenges

Section D: Any other comment with regards to corporate governance

The respondents for the study:

Director,

CEO or

Doctor-in-Charge.

SECTION A: Background information

Name of the facility_____

Physical location_____

County_____

Contact _____

Number of Beds_____

Number of Doctors_____

How many years have you been in existence? _____

Type of ownership (*circle the applicable*)

1. Private for profit 2. Private not for profit 3. Others

(Specify)_____

SECTION B: Corporate Governance Practices

To what extent have you adopted each of the following corporate governance practices in your hospitals?

Use a 5-point scale, where: **1=Not at all, 2= Little extent, 3=Moderate extent, 4=Great extent, and 5= Very great extent**

Corporate Governance Practices	1	2	3	4	5
Corporate governance structure					
Clear definition of the functions of Director/CEO					
Clear definition of the functions of Board of Directors (BOD) clearly defined					
Board's accountability made accountable with respect to their duties and responsibilities					
Board members access to /are made aware of all the relevant information to do their work effectively					
Board hold senior management accountable					
Any factors that tend to weaken the independence of the board of directors or board members					
Review your corporate governance					

structure and practices

Board composed of physicians

Individual board members have the required qualification/expertise and knowledge to monitor governance issues at the hospital

Incentives are aligned such that board members/board of directors can fulfill their responsibilities in the long term

Disclosures are made with regards to remunerations and benefits

Quality of the external auditor is ensured

Appropriate policies and procedures in place to ensure equality treatment of staff and clients/customers

Ensuring accuracy of financial information

BOD adoption of the vision/mission statement

BOD formulated a corporate strategy and announced significant policies

All significant matters brought to the attention of the board e.g. investments, divestments,

BOD ensures implementation of an effective system of Internal Control

The board is composed of members
with age > 50 years

The board composed of members
with age < 50 years

Involve the community or clients on
issues addressing them

SECTION C: Corporate Governance challenges

To what extent do you encounter the following challenges of corporate governance in the hospital?

Use a 5-point scale, where: **1=Not at all, 2= Little extent, 3=Moderate extent, 4= Great extent, and 5= Very great extent**

Corporate Governance Challenges	1	2	3	4	5
Treating of uninsured clients					
Client discrimination on racial grounds					
Staff turnover					
Advance in technology					
Competitors					
Inadequate equipment					
Unresolved conflicts					
Fraud issues					
Managing a diverse group of stakeholders					
Meeting and Achieving corporate governance practices					
Implementing the corporate governance practices					
Challenges of diversification and vertical integration					
Difficulties of maintaining confidentiality					
Rising operating cost					
Medical errors					
Health insurance predicament					

Declining revenues

Complaints from clients on safety of patients

Low-income clients who need your services

Issues of sub-standard care services

SECTION D: Any Other Comments

Any other comments about the state of corporate governance in the organization.

Appendix 2: The Cover Letter

To: _____

Dear Sir/Madam,

RE: CORPORATE GOVERNANCE PRACTICES SURVEY

I am an MBA student at the University of Nairobi undertaking an academic research study on Corporate Governance practices and challenges of Private Hospitals in Coast Province of Kenya.

I am kindly requesting for your participation in this study. A questionnaire consisting of 3 sections: Section A: Background information, Section B: Corporate Governance practices and Section C: Corporate Governance challenges, Section D: Additional comments on the organizations corporate governance; will be sent to you.

The information you provide will be treated with utmost confidentiality.

Thank you in advance

Yours Faithfully,

MBA Student, SOB, UON

Suzzanne Nzingo Kalume

Research Project Supervisor,

Professor Martin Ogutu

Appendix 3: List of Private hospitals in Coast Province of Kenya

	Facility Code	Facility Name	District
1.	11203	Aga Khan Hospital (Mombasa)	Mvita
2.	11208	Al Farooq Hospital	Mvita
3.	11258	Bomu Medical Hospital (Changamwe)	Changamwe
4.	11434	Jocham Hospital	Kisauni
5.	11600	Mewa Hospital	Mvita
6.	11643	Mombasa Hospital	Mvita
7.	11734	Pandya Memorial Hospital	Kisauni
8.	11774	Sayyida Fatimah Hospital	Kisauni
9.	11818	St Luke's (ACK) Hospital Kaloleni	Kaloleni
10.	11829	Star Hospital	Malindi
11.	11843	Tawfiq Muslim Hospital	Malindi
12.	16543	Nyali Children Hospital	Kisauni
13.	18498	Palm Beach Hospital	Msambweni
14.	18499	Diani Beach Hospital	Msambweni

Source: www.ehealth.or.ke, retrieved on 24th July 2012