INTEGRATION OF CORPORATE GOVERNANCE IN STRATEGIC MANAGEMENT AT THE ETHICS AND ANTI-CORRUPTION COMMISSION

BY

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA), SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

NOVEMBER 2012

DECLARATION

This research project is my original work and has not been presented for the award of degree in any other university or institution for any other purpose.

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REG. NO: D61/70935/2008

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

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ACKNOWLEDGEMENTS

I have been blessed to have a dedicated team of people contributing towards the successful completion of this project, and I appreciate all of them.

First, I am grateful to the Almighty God, who has always been there for me throughout my studies.

Second, my profound gratitude goes to my supervisor Prof. E. Aosa, for his insightful guidance that enabled me to successfully complete this pleasant task. I am thankful for his corrections in my error-friendly drafts and guidance in writing this project.

Heartfelt thanks to my family, especially my wife, Joan. She has been a great inspiration to me. She kept pushing me to complete my MBA studies, especially when I faced challenges. That cannot be taken for granted.

To my fellow MBA students of the 2008 class, most of whom have since graduated; thanks for your encouragement. Many thanks also go to the staff of the Ethics and Anti-Corruption Commission for their positive response during my data collection activity. The absence of such cooperation would have brought the entire process of developing this paper into an instant halt.

Lastly, thanks to any other person who might have contributed in one way or another to the success of this study.

DEDICATION

To my dear wife, Joan

Thanks for believing in me and inspiring me to greater things. I am proud of you.

To Alvin

Thank you for being such an incredible son. You amaze with your concern in the progress of the things I do in life; especially when I remember the days when you asked me, “Daddy have you paid your school fees? And when are you going to complete your studies?’’

To Abigael

You have such a tender heart, filled with kindness and compassion. When you smile, we feel God’s love.

ABSTRACT

Corporate governance issues are of great concern in the world today because of its influences on the effectiveness and relevance of an organization's strategy. Organizations are more than ever, under increased pressure to be proactive in reforming various aspects of corporate governance to protect stakeholders' interests. A weak corporate governance results in weak organizational strategy, which seriously compromises the strategic positioning and success of an organization.

The objective of this study was to determine the integration of corporate governance practices in strategic management at the Ethics and Anti-Corruption Commission. The research design adopted by the study was a case study. The study used primary as well as secondary data. The primary data were collected using an interview guide where as the secondary data were obtained from the Commission's manuals. The data was analyzed qualitatively using content analysis.

The study found out that the commission practised corporate governance as evidenced by presence of a robust corporate governance instruments such as code of conduct, audit committee and a functional board/commissioners. Corporate governance has been incorporated in commission's strategic management as indicated in the commission's current strategic plan.

From the findings, it was concluded that the major challenge faced in implementing corporate governance at Ethics and Anti-Corruption Commission was mainly due to external political constraints and lack of internal stakeholder participation during strategy formulation.

Arising from the findings, it was recommended that the Government of Kenya addresses political constraints affecting the Commission, and the Commission in turn encourages stakeholder participation in strategy formulation.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Corporate governance issues have recently received much attention as a development challenge across the world. Empirical studies have revealed that there is link between corporate governance, corruption and poverty; and that corruption is an outcome of poor corporate governance, which leads to destruction of wealth and increased levels of poverty (World Bank, 2008). Bad corporate governance erodes public confidence, discourages investments, compromises the efficiency and effectiveness of organizations, and increases the cost of doing business. Cases of corporate failures and scandals, dismal performance in economies of many countries, failure of states especially in Africa are common, all these being indicators of bad governance. In Kenya, studies have shown that 30% (approximately KShs 300 Billion) of national revenues are pilfered through corrupt practices because of prevailing poor corporate governance systems. It is against this backdrop that there have been increased and perceived need for more effective monitoring mechanisms and appropriate incentive schemes to improve corporate governance systems. The efficiency and accountability of governments and corporations is now a matter of both private and public interest, and corporate governance has, thereby, come to the top of the international agenda.

Good corporate governance practice provides a means to recognize the dream of justifying risks and optimizing performance concurrently in today's aggressive and regulatory setting (Chen, and Zhao, 2007). Corporate governance lays down framework for creating long-term trust between company and its stakeholders.

Debates on corporate governance of state-owned organizations are equally as important as those of private companies. Privatized organizations largely depend on corporate governance instruments employed, especially the board capabilities for effective and efficient execution of authority; but state-owned companies, have to take into account a number of political constraints. This research, therefore, purports to extend the knowledge of corporate governance theories, their application, and their integration with strategic management to a state owned organization.

1.1.1 Concept of Corporate Governance

According to Sababu (2007), corporate governance refers to the manner in which the power of an organization is exercised in directing organization's total resources with the aim of increasing owner's value in line with the organizational environment and mission. Good corporate governance promotes fairness, transparency, and accountability. Hussey (1999) defines corporate governance as the manner in which organizations are managed and the nature of accountability of the managers to the owners. By the World Bank definition used in Governance and Anti-Corruption Strategy, corporate governance refers to the manner in which public officials and institutions acquire and exercise the authority to shape public and provide goods and services (World Bank, 2008). The definition of corporate governance can be debated at length, but at its essence, it is about fairness and equity.

From these definitions, it may be stated that different systems of corporate governance will embody what are considered to be legitimate lines of accountability by defining the nature of the relationship between the company and key corporate constituencies.

Corporate governance practices or strategies are context sensitive, that is, different organizational contexts are associated with different corporate governance strategic processes.

1.1.2 Concept of Strategic Management

Strategic management is the conduct of drafting, implementing and evaluating cross functional decisions that will enable an organization to achieve its long-term objectives. It is the process of specifying the organization's mission, vision and objectives, developing policies and plans often in terms of projects and programs, which are designed to achieve these objectives and then allocating resources to implement the policies and plans, projects and programs. In so doing, managers should be able to understand the strategic position of an organisation, make strategic choices for the future and turn strategy into action (Johnson and Scholes, 2008). The basis of strategic management is the notion that strategy creates an alignment between the enterprise's internal strengths and weaknesses on the one hand and its opportunities and threats (SWOT) in its external environment on the other hand.

Environment and resources influence the strategic position of an organisation. However, people play a complex role in the evolution of strategy, because strategy is majorly about what people expect the organisation to achieve, and therefore what influence people can have over an organisation's purposes. The most fundamental expectations are whom the organisation is there to serve, and how the purposes and priorities of the organisation should be decided. This is corporate governance as it concerns how an organisation

should function and the distribution of power among different players (Johnson and Scholes, 2008). It is therefore evident that corporate strategy is never complete without a well thought out and properly functioning corporate governance plan. In effect, corporate governance has a major implication on the success of an organization's overall strategy.

1.1.3 Government of Kenya

The government of Kenya consists of the national executive and the county executive, national and county legislative assemblies, the Judiciary, and the Independent Commissions (tribunals). The national executive of the Republic comprises the President, the Deputy President, the Attorney General, the cabinet secretaries and the office of the Director of Public Prosecutions. The role of the national executive arm of government is to implement the executive functions assigned to it by the constitution. The county executive consists of the governor and the members of the county executive and their role is to implement the functions assigned to it by the constitution within the county set up.

Legislature comprises of the National Assembly, the Senate, and the County Assembly. Legislature makes laws and deliberates on the procedure of impeaching the president, whereas the county assembly makes laws relating to the operations of respective counties.

The judiciary comprises the Supreme Court, Court of Appeal, High Court and the subordinate courts. Judiciary is established to adjudicate on disputes as laid down in the constitution. The role of the independent commissions is to protect the sovereignty of the people, secure the observance by all state organs of democratic values and principles, and promote constitutionalism (Constitution of Kenya, 2010).

1.1.4 The Ethics and Anti-Corruption Commission

The Ethics and Anti-Corruption Commission (EACC) as established by article 79 of the Constitution of Kenya and the Ethics and Anti-Corruption Act (2011) is the successor of the Kenya Anti-Corruption Commission. Its vision is to be a world class institution fostering zero tolerance to corruption, and its mission is to combat corruption and economic crimes through law enforcement and public education (EACC, 2011).

The specific mandates given to this Commission include investigations into corrupt malpractices, recovery of stolen public wealth, and develop and enforce code of ethics for public officers. In discharging its mandate, the Commission may co-operate with other agencies such as the Directorate of Public Prosecutions, Kenya Police, Parliamentary Committees, Public Procurement Oversight Authority (PPOA) and the Kenya National Audit office (KENAO).

The Commission currently has an establishment of 286 employees, with its headquarters in Nairobi and has five other regional offices within the republic. Plans are underway to spread the presence of the Commission throughout the forty seven (47) counties of the republic.

1.2 Research Problem

Corporate governance issues are of great concern in the world today because of its influences on the effectiveness and relevance of an organization’s strategy. Organizations are more than ever, under increased pressure to be proactive in reforming various aspects of corporate governance to protect stakeholders’ interests. A weak corporate governance

results in weak organizational strategy, which seriously compromises the strategic positioning and success of an organization (Johnson et al, 2008). This study is therefore consistent with the general notion that successful strategic management is a product of good corporate governance that ensures integrity, optimal performance and instills confidence in the organization's stakeholders.

Various studies have been conducted in the field of corporate governance in both private and state owned organizations operating within different contexts. Brown and Caylor (2009), did a study on correlation between corporate governance and company performance within publicly listed companies in the United States of America, and found out that firms with weaker corporate governance performed more poorly. Mwakanongo (2007) did a survey of corporate governance practices in shipping companies in Kenya and found out that the average size of the board was four members with a diverse, professional, and business inclination, which presupposed that the shipping companies practiced good corporate governance mechanisms. Ngumi's (2008) survey on corporate governance practices at the Housing Finance Company of Kenya (HFCK) revealed that, HFCK had a good corporate governance practices as recommended by various banking industry stakeholders. The board of HFCK is responsible for the overall management of the bank and is committed to ensuring that its business and operations are conducted with integrity, and in compliance with the law, internationally accepted principles and best practices in corporate governance.

Mwirichia (2008) carried out studies in the field of corporate governance disclosures among Kenyan firms quoted in the Nairobi Stock Exchange (NSE). The study disclosed that, compared to other emerging economies, NSE listed companies report more

comprehensively and the gap between good and poor reporters narrower; companies in the financial sector were found to make more intensive disclosures than non financial companies; corporate governance disclosure index is significantly influenced by the size of the board and the age of the company. These studies reveal that corporate governance strategies vary from one context to another. This is consistent with the general notion that firm's corporate governance strategies should be tailored to support the institutional environment.

This study therefore, will determine the integration of corporate governance and strategic management. It will focus on the Ethics and Anti-Corruption Commission because of its unique setting with goals of wider scale, encompassing both the organization and the country as a whole and operations that call for accountability to varied stakeholders. How then is corporate governance integrated in strategic management at the Ethics and Anti-Corruption Commission?

1.3 Research Objectives

The objective of the study was to determine the integration of corporate governance practices in strategic management at the Ethics and Anti-Corruption Commission.

1.4 Importance of the Study

The findings of this study will be useful in informing the Government of Kenya, policy makers of the Commission, and stakeholders, as to whether the corporate governance structures currently in place at Ethics and Anti-Corruption Commission promote the achievement of the mandate bestowed upon it. It will also seek to inform them of areas of improvement and the appropriate mechanisms to be put in place to ensure better

governing of the relationships of constituent groups of the organization so as to achieve its mission and set objectives.

Scholars, academics, and researchers of strategy and corporate governance will benefit from the findings of this research, as it will add to the pool of knowledge for reference. The study will also open new frontiers for further research by those with interests in the field of corporate governance.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter on literature review will focus on the factors raised in the study objectives. The review relies on earlier work obtained from published reference materials such as books, magazines, research papers, the internet and journals. These materials will provide a general overview of the state of corporate governance as an evolving phenomenon.

2.2 Corporate Governance

The Private Sector Governance Trust (1999) defines corporate governance as the manner in which the power of a corporation is exercised in the stewardship of the corporation's portfolio of assets and resources with the objective of maintaining and increasing shareholder value and satisfaction of other stakeholders in the context of its corporate mission. World Bank (1994) defines governance in relation to government as the 'practical exercise of power and authority by governments in the management of their affairs in general and of economic development in particular'. Good corporate governance is an important concept for development and is related, first of all, to the necessity to create the basic extra-economic conditions that are important for the growth of nations' economies. The interventions in support of good corporate governance include the elements of accountability, an effective public administration, a functional legal framework, efficient regulatory structures and transparent systems for financial disclosures.

At its broadest, corporate governance encompasses the framework of rules, relationships, systems and processes within and by which fiduciary authority is exercised and controlled

in corporations. Relevant rules include applicable laws of the land as well as internal rules of a corporation. Relationships include those between related parties, the most important of which are the owners, managers, directors of the board, regulatory authorities and to a lesser extent employees and the community at large. Systems and processes deal with matters such as delegation of authority, performance measures, assurance mechanisms, reporting requirements and accountabilities.

Mitton (2000) defines corporate governance as the means by which minority shareholders are protected from expropriation by managers or controlling shareholders. Corporate performance is partially a function of the quality of management, which given agency problems within the firm, will be a function of the quality of governance structures within the firm. Observable variables associated with governance structure such as the ownership of top management and the board of directors, the compensation package of top management, and the composition of the board of directors will vary in ways so that firms with certain types of structures systematically outperforming firms with other governance structures (Weisbach, 1993). Firm value is an increasing function of improved governance quality among firms with high free cash flow. In contrast, governance benefits are lower or insignificant among firms with low free cash flow. Not controlling for this conditional relation between governance and firm value could lead to erroneous conclusions that governance and firm value are unrelated (Chi et al., 2010). A system of corporate governance consists of those formal and informal institutions, laws, values, and rules that generate the menu of legal and organizational forms available in a country and which in turn determine the distribution of power – how ownership is assigned, managerial

decisions are made and monitored, information is audited and released, and profits and benefits allocated and distributed (Cornelius and Kogut, 2003).

2.3 Theories of Corporate Governance

Letza (2002) explains that the current debate on corporate governance has been ‘polarized’ between, on one hand, the shareholding paradigm (distributed ownership) and, on the other hand, partnership paradigm (concentrated ownership). There are various theories explaining corporate governance.

The social entity theory views the corporation as a social institution in society based on the grounds of fundamental value and moral order of the community. Sacks (1997) states that human attachments and affiliations, loyalties and likes are both moral and fundamental, they enter into the identity and understanding of specific persons and cannot be reduced to contractual alliances for the temporary pursuit of gain. With the fundamental value of human rights and morality as a reference framework, the standard of a corporation’s usefulness is not whether it creates individual wealth but whether it helps society gain a greater sense of the meaning of community by honoring individual dignity and promoting overall welfare (Sullivan and Conlon, 1997). Corporations are granted by the state not only as an economic entity for a commercial purpose, but more importantly, as a social entity for general community needs. The corporation has a collective, rather than individual identity and executives are representatives and guardians of all corporate stakeholders’ interests (Hall, 1989).

The agency theory provides a viewpoint of how owners (principals) of an organization engage others (agents) to perform some service on their behalf which involves delegating

some decision making authority to the agents (Jansen and Meckling, 1976). This arrangement results in the problem of agency. Agency problems occur when the principals (shareholders) lack the necessary power or information to monitor or control the agent (managers) and when the compensation of the principal and agent is not aligned. It is generally impossible for the agents to make optimal decisions from the principal's point of view. According to Fama (1980) the directors (agents) of companies, however, being the managers of other people's money, cannot well be expected to watch over it with the same anxious vigilance with which the partners in a partnership frequently watch over their own. Negligence and profusion therefore prevail in the management of the affairs of such a company holds that separation of security ownership and control can be explained as a result of efficient form of economic organization within the set of contracts perspectives.

The inherent property rights conception is based on the view that private ownership is fundamental to a desirable social order and to the development of an efficient economy. Thus, private ownership rights are inviolable in any way. This perspective was developed during the seventeenth and eighteenth centuries in corporate law theory. It was assumed that the right to incorporate is inherent in the right to own property and write contracts, and corporations should be regarded as legal extensions of their owners (Allen, 1992). Since shareholders are the owners of the corporation, the corporation has legitimate obligations and the managers have a fiduciary duty to act in the interest of the shareholders (Mayson et al., 1994). Blair (1995), associates the modern Inherent property rights theory with the Chicago school of law and economics. Under this theory, assets of

the corporation are the property of the shareholders, and directors and managers as agents of shareholders have no legal obligations to any other stakeholders.

The stewardship theory portrays managers as good stewards of the corporation. Based on a traditional legal view of the corporation as a legal entity in which directors have a fiduciary duty to the shareholders, the stewardship theory argues that managers are actually behaving just like stewards to serve the shareholders' interests and diligently work to attain a high level of corporate profit and shareholder returns. Managers have a wide range of motives beyond a simple self-interest, such as achievement, recognition and responsibility needs, the intrinsic satisfaction and pleasure of successful performance, respect for authority, social status, and work ethics. Thus, the separation of ownership from control does not inherently lead to a goal and interest conflict between shareholders and managers. The separation actually promotes the development of managerial profession, which is certainly beneficial for corporate performance and shareholder wealth. In this regard, empowering managers to exercise unencumbered authority and responsibility is necessary for the maximization of corporate profits and shareholders' value (Etizioni, 2005).

2.4 Strategic Management

Strategic management is concerned about the direction and scope of an organization over the long-term which achieves advantage for the organization through configuration of resources within a changing environment to achieving the objective of meeting the needs of markets and to fulfill stakeholder expectations. Schendel and Hofer (1979) identified the following six "major tasks" of strategic management. The tasks are goal formulation,

environmental analysis, as well as the formulation, evaluation, implementation, and control of strategies. Sandberg (1992) lists an enterprise's resources, processes, strategy, and field of industry as the primary variables of strategic management.

Accordingly, strategic management can be regarded as setting the context for entrepreneurial behavior, i.e. the exploitation of opportunities (Ireland et al., 2001). The concept of strategy revolves around deliberate attempt by an organization to obtain sustainable long-term advantage in the delivery on expectation of stakeholders. Strategy is the great work of an organization, key to survival or extinction. Strategy is about winning and it is neither a plan nor a detailed program of instructions but a unifying theme that gives coherence and direction to the actions and decisions of an individual or an organization that enables it achieve superior performance (WU et al., 2004). Strategy is the determination of the basic long-term goals and objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for carting out these goals (Chandler, 1962).

Based on the management theory it could be observed that the strategic management theories stem mainly from the systems perspective, contingency approach and information technology approach. In light of this background, David (2005) noted that among the common strategic management theories applicable are the profit-maximizing and competition-based theory. The profit-maximizing and competition-based theory, was based on the notion that business organization main objective is to maximize long term profit and developing sustainable competitive advantage over competitive rivals in the external market place.

As Porter (1991) highlighted, there are four attributes of the proximate environment of a firm that has the greatest influence on its competitive advantage, namely, factor conditions, demand conditions, related & supporting industries, and firm strategy, structure and rivalry. The study by Burden and Proctor (2000) on training and competitive advantage found out that meeting customer needs on time, every time, is a significant route to achieving and sustaining competitive advantage, and training is a tool that organizations should use to succeed at this.

2.5 Corporate Governance and Strategic Management

Strategic management includes understanding the strategic position of an organization, strategic choices for the future and turning strategy into action (Johnson et al, 2008). The strategic position is concerned with the impact on strategy of the external environment, an organization's strategic capability (resources and competencies) and the expectations and influence of stakeholders. The issue of corporate governance becomes very important. Here the question of who the organization should primarily serve and how managers should be held accountable, arise.

It is the statutory responsibility of the governing body of an organization to ensure that the organization fulfils the wishes and purposes of the 'owners'. The ultimate responsibility for the success or failure of strategy and the benefits which owners receive, lies with the governing body (the board) of the organization. Therefore, the board must be concerned with how strategy is managed in the organization. This is exactly how governance influences strategy. The board has two broad choices of how they influence strategy. The strategy management can entirely be delegated to management, with the board receiving

and approving plans/decisions or the board can engage with the management in strategic management process.

2.6 Corporate Governance Instruments

Country factors can play a key role in setting the framework for corporate governance practices at the individual company level. In any given country, the legal system and corporate culture helps to set some corporate governance standards. Two companies with the same risk profile but domiciled in countries with contrasting legal, regulatory and market standards therefore present different risk profiles should their governance practices deteriorate. According to this view, corporate governance practices are those rules that apply to specific financial markets and organizational forms and establish the rights of owners, and the information and mechanisms at their disposal, to control management and employees. These practices for the public firm include the determination of the board of directors and its powers and voting rules, protection of minority investors, the publication of audited accounts, covenants restricting managerial actions such as the sale of assets, and the distribution of profits.

2.6.1 Board of Directors

The board of directors assumes an important role in corporate governance. The importance of boards and the need for them to be more engaged in, and influence the strategic management of their organizations came to public prominence following the failures of Enron and WorldCom in the early 2000s (Johnson and Scholes, 2008). There

was considerable discussion as to whether the boards of companies were really exercising their stewardship role.

Owing to the separation of corporate management and ownership, boards exist to protect the interests of shareholders. The board of directors is charged with monitoring and disciplining senior management, and therefore assuring the quality of financial reporting (Anderson et al., 2004). For a service providing corporation the board ensures that the shareholders get valuable service commensurate with their investment. The board determines the nature of implicit contracts with the constituencies of the firm. According to the corporate governance literature, there are four main sets of board attributes; composition, characteristics, structure and process. Board composition refers to the size of the board and the mix of director demographics. It includes the concept of board independence. Board characteristics encompass the directors' background, skills, (training and experience). Board structure covers board organization, board committees and the role of subsidiary boards. Board process refers to the arrangement for boards' operations, including for example, the frequency and duration of meetings, succession planning and the evaluation of directors' performance (Moodie, 2001).

According to Mak and Kusnadi (2005) the board independence is an important condition for the critical evaluation and monitoring of managers' performance. In effect, board independence is the focus of considerable attention in current codes of best practice. Nonetheless, evidence of a positive effect on performance is mixed, possibly because of the difficulty of identifying truly independent directors. Whereas Bhagat and Black (2002) find no relationship between the proportion of independent directors and various indicators of firm performance, Rosenstein and Wyatt (1990) observe a positive market

reaction to the appointment of independent directors. Perry and Shivdasani (2005) explain that firms with a majority of outside directors are more likely to restructure following performance declines, and more determined in doing so. Dunlop (2000) explains that an executive Board should ensure that the agency is conforming to legislation and government policies and achieving agreed outcomes. A major issue in carrying out the Executive Board's conformance function is independence-whether board members who are likely to be also managers can sensibly be expected to report openly on what is effectively happening in organization (their own management performance), and be seen to be doing so by those to whom they are accountable.

Board members are expected to be committed to their responsibilities, be honest and objective, accountable and transparent in their dealings. By so doing, the board will serve the stakeholders better by providing quality services, and placing greater emphasis on corporate values and ethical conduct.

2.6.2 Audit Committee

Given its diverse responsibilities, the board of directors delegates some of its oversight to an audit committee and other committees of the board. The audit committee is responsible for recommending the selection of an external auditor, ensuring the soundness and quality of internal accounting and control practices, and monitoring the external auditor's independence from senior management (Anderson et al., 2004).

The effectiveness of the audit committee's oversight role is influenced by characteristics such as audit committee members' independence, financial literacy and expertise, and

activity (number of committee meetings per year). According to Abbot et al., (2004) firms that had audit committees composed entirely of independent directors meeting at least twice annually were less likely to be sanctioned by the moment for fraudulent or misleading financial reporting and that the audit committee's independence, the presence of at least one member with financial expertise, and meeting at least four times per year exhibited a significant and negative association with the occurrence of restatement. Carcello and Neal (2000) found that the greater the percentage of affiliated directors on the audit committee in firms experiencing financial distress, the lower the probability the auditor would issue a going-concern report. DeZoort et al., (2008) found that firms were more likely to have internal control weaknesses if their audit committees were less independent and had less financial expertise or, more specifically, had less accounting financial expertise and non-accounting financial expertise.

In recent times, there has been increased debate on whether the audit committee should periodically rotate the external auditors. This debate has been necessitated by concerns that long standing auditor-client relationships may erode the auditor's professional skepticism which would undermine the audit process. However, the arguments for and against external auditor rotation, should not in any way hinder the audit committee in selecting the best suited external auditor (Ikiao, 2012).

2.6.3 Codes of Conduct

Codes of conduct also know as institutional codes of best practice are a set of conventional principles and expectations that are considered binding on any person who is a member of a particular group. Codes of conduct are usually published in form of

manuals known as governance manuals. They are developed by the management of the organizations in consultations with stakeholders in compliance with relevant laws and regulations, thus emphasizing communication and reporting in areas associated with governance. Institutional codes of conduct provide internal control procedures for ethical conduct and discipline, assessment of performance of the board of directors and management corporate risks, corporate culture, and social and environmental responsibility. It also provides mechanisms for regular review of systems, processes and procedures to ensure effectiveness.

Arguably, the codes of conduct are life bloods of corporate governance in organizations. A well-crafted and properly implemented code of conduct will result in good corporate governance, and thus improved performance, viability, and fiscal sustainability.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter on research methodology provided an in-depth chronology of how relevant data for the study was obtained and processed in order to be meaningful to the research objectives. The topic covered research design, methods of data collection, data analysis and thereafter conclusions and recommendations were made.

3.2 Research Design

The research design was a case study. Case studies place more emphasis on a full contextual analysis of fewer events or conditions and their interrelations (Cooper and Schindler, 2005). The merit of using a case study is that it allows an in-depth understanding of the behavior pattern of the concerned unit rather than a sweeping statistical survey. It therefore allows narrowing down a very broad field of research into one easily researchable topic. This study was built on similar grounds. In this regard it involved an in-depth investigation of the phenomenon of corporate governance with a particular emphasis on the Ethics and Anti-Corruption Commission.

Although a case study provides a more realistic response than a purely statistical survey, its results cannot be used to generalize the entire field of study. Additionally, a case study is based on opinion, and is basically designed to provoke reasoned debate with no right or wrong answers.

3.3 Data Collection

The study used both primary and secondary data. The primary data were collected using an interview guide, while the secondary data were obtained from the commission's documented strategic plans and governance manuals. An interview guide is a set of questions that the interviewer asks when interviewing (Mugenda and Mugenda, 2003).

Fifteen managers drawn from the top management were selected as respondents in this study. These managers are charged with the responsibility of formulation and implementation of the commission's strategy. These were considered to be key informants for this research. Key informants are also a source of information that can assist in understanding the context of an organization, or clarifying particular issues or problems.

In-depth interviews reduce the distance between interviewer and interviewee. This method should be considered more often by researchers since it provides more qualitative information, more depth, more representation, more efficiency, more statistics, and more value (Stokes and Bergin, 2006). The choice of the respondents is very important, as senior executives are the head of the organization and the ones who can foster corporate governance to their employees. Additionally, managers of all levels have a holistic view of the organization and appreciate the existence of different employees from different cultures. Furthermore, they may provide access to more significant and useful secondary data as documents, and other valuable information. The interviews were semi-structured so that some questions can be omitted or added if some new and useful information come

up through the whole procedure, which will be "face to face" interviews. The order of the questions may also be varied depending on the flow of the conversation.

3.4 Data Analysis

The data obtained from the interview guide were analyzed qualitatively. Qualitative data analysis makes general statements on how categories or themes of data are related. The qualitative analysis was adopted in this study because the researcher was able to describe, interpret and at the same time criticize the subject matter of the research since it was difficult to do so numerically. The qualitative analysis was done using content analysis.

Content analysis is the systematic qualitative description of the composition of the objects or materials of the study (Hsieh and Shannon, 2005). It involves observation and detailed description of objects, items or things that comprise the object of study.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The research objective was to establish the integration of corporate governance in strategic management at the Ethics and Anti-Corruption Commission (EACC). This chapter presents the analysis, findings and discussion of the same. In total, the researcher managed to secure interviews from twelve respondents.

4.2 Respondents Profile

This section of the interview guide wished to establish the targeted respondent's academic as well as professional qualifications. In addition, their work experiences were also to be established. The respondents comprised of senior managers at EACC. Incorporating the senior managers from different departments in the study ensured that the functional units were represented. The senior management was the one in the forefront driving corporate governance and marshaling all other resources towards achievement of EACC's mandate.

The respondents indicated that they have been working with EACC for a period of between three and eight years, with majority having worked in the company for more than six years. On the duration holding the current position the respondents indicated that they have been holding the current position for a period ranging from two years to seven years although majority of the respondents have held the current position for three years. Thus having worked in the commission for such a period and in the management positions, the respondents have firsthand experience on corporate governance, formulation and

implementation of Commission's strategic plans. All the respondents interviewed had university degrees with eight of them having post graduate degrees as well. Therefore, they easily appreciated the concept being investigated and comfortably responded to the interview.

4.3 Corporate Governance

The questions in this section sought to establish corporate governance in EACC. Corporate governance lays down framework for creating long-term trust between company and its stakeholders and these was exhibited in the commission as the respondents noted that corporate governance was extremely important to the commission as it shows the sensitivity of the organization to the stakeholders and reflects on how considerate the board/commissioners and management are to the employees and external stakeholders; and that the commission being tasked with integrity issues has to act as an example to other government organs that it audits for compliance in corporate governance. Good corporate governance practice provides a means to recognize the dream of justifying risks and optimizing performance concurrently in today's aggressive and regulatory setting.

The respondents indicated that EACC was practicing corporate governance through the code of conduct, audit procedures and audit committees and also a clear reporting structure between the board and the secretariat. The code of conduct currently in force, is intended to streamline the conduct, demeanor and activities of the members and staff of the commission so that they are consistent with vision and mission of the commission and the aspirations of the government and the people of Kenya. The code of conduct for the

commission binds all members and officers of the commission, and must be obeyed in addition to all other staff rules and laws. In summary the code of conduct defines the regulations, what constitutes a breach of the code and the relevant enforcement mechanisms.

There exist board/commissioners which is one of the key instruments of corporate governance. According to commission's manuals, the commissioners/board is charged with the responsibility of determining the vision mission, objectives and functional policies of the commission and guiding the organization to success. They also ensure compliance with all relevant laws, regulations, corporate governance practices, accounting and auditing standards; as well communication with all the external stakeholders. The operating statutes define a clear reporting structure between the board and the secretariat, with the board crafting the strategies and the secretariat headed by the CEO executing the agreed strategies.

The governance manual for commission also shows that the audit committee of the board is given a prominent role to play. It is responsible for recommending the selection of an external auditor, ensuring the soundness and quality of internal accounting and control practices, and monitoring the external auditor's independence from senior management.

The respondents underscored the importance corporate governance observing that corporate governance gave life to the proper functioning of the commission. They concluded that, if the commission observed all its corporate governance regulations, it would institutionalize good corporate culture, thus setting a good example to the public

institutions it audits for corporate governance compliance. This in turn will make it easier for the commission to achieve its objectives.

In order for the commission to execute its mandate satisfactorily, there has to be proper legal, regulatory and institutional foundations. The respondents observed that these foundations exist currently in the commission since the corporate governance provisions are anchored in law; the code of conduct is backed by legal regulatory instruments, and is a domestication of the wider civil service code of conduct. A cursory review of the existing statutes shows that CEO of the Commission is conferred with powers to establish the code of conduct and ethics for the officers of the commission. The commission's code of conduct therefore has a legal backing, making its enforcement realizable.

4.4 Integration of Corporate Governance Practices in Strategic Management at the Ethics and Anti-Corruption Commission

This section of the interview guide aimed at determining from the respondents the extent to which the EACC has integrated corporate governance practices in strategic management. The respondents pointed out that the commission had incorporated corporate governance practices in its strategic management and was part of the items constituting the strategic plans. Indeed, a look at the current strategic plan revealed that in its SWOT ANALYSIS, EACC boasts of having robust corporate governance tools as one of its key strengths. These tools include the code of conduct for the commission, and the audit procedures which are currently being reviewed to conform to the current requirements of the commission.

The commissioners/board as one of the corporate governance instruments, are also given prominence in the commission's strategic plans. They issue policy guidelines, provide direction to the commission in discharge of its mandate, and act as the link between the commission and external stakeholders. Commissioners/ board also to protect the interests of stakeholders by monitoring to ensure the organization attains its objectives, and disciplining senior management if they engaged in unethical conducts.

For the commissioners to effectively perform their fiduciary function, independence is necessary. The respondents noted that the commissioners were independent and thus they would critically evaluate and monitor the performance of managers by giving those targets and undertaking evaluation based on the agreed targets. The independence of the commissioners would give them a freehand to ensure that the commission puts in place strategic plans that would drive the commission through the turbulent times. It will also cushion them from politicians who were noted to be keen to mismanage the commission.

The respondents noted that the commission had a small number of commissioners/board size, which was desirable for efficiency and effectiveness. This is in tandem with international experience which indicates that smaller boards allow for better monitoring of management and less political interference. Newly implemented CG mechanisms, however, require a significant amount of time to reach their potential effectiveness. In the early stages, these mechanisms are still fragile and it's often observed where management bypasses them.

The integration of corporate governance in strategic management at EACC, according to the respondents, obligated the commission to implement the agreed corporate governance practices and accordingly review them for relevance. This is in agreement with the

standard practice that strategic plans must be implemented. According to Johnson et al (2008), understanding the strategic position of an organization and considering the strategic choices open to it are of little value unless the preferred strategies can be turned into action.

Since corporate governance drives strategy, the respondents felt that making it part of the strategic plan would result in strengthening the commission, because corporate governance would promote fairness, transparency, and accountability and achievement of the commission's objectives. It would also to create a relationship between the corporation and the employees, promote accountability on the persons entrusted with exercising the authority of the organization especially in guiding decision making. The result of these happenings would be improved performance to the satisfaction of Kenyans who are the main stakeholders.

Integration of corporate governance in strategic management will also provide a means of assessing performance of commissioners/ board of directors and management of corporate risks. It also provides mechanisms for regular review of systems, processes and procedures to ensure effectiveness.

Challenges emanate during the implementation of any given strategy. For instance, despite the Ethics and Anti-Corruption Commission having a functioning corporate governance and strategic plans it has not achieved its long-term goals, at least if the perception out there was anything to go by. This has been blamed to both internal and external challenges in the implementation of practice of corporate governance. The respondents were in agreement that, the challenges faced by the commission in executing its mandate were political in nature. They cited lack of political goodwill which manifests

itself through protracted battle in appointment of commissioners/senior managers, and their frequent dismissal, restrictive budgetary allocations and passage of weak laws governing the conduct of business of the commission. Practically, it would be difficult to have meaningful implementation of all strategic plans including corporate governance with persistent interruption on management. All the interviewees were unanimous that the government and the commission take into consideration political constraints on its governance and policies; and adequately address them through lobbying.

The respondents also felt that the corporate governance practices currently in force were developed without regard to wider consultations. This therefore creates some resistance during implementation. The standard practice dictates that a strategy developed through a wider consultation gains acceptance, hence ease of implementation. In order to mitigate against this challenge, the respondents noted that the commission ought to involve all stakeholders by enhancing their participation when crafting corporate governance strategies. They also suggested that review of the existing governance instruments to conform to the current requirements. Additionally majority of the respondents felt that the existing corporate governance practices have not been strictly enforced and there is need to do so. Furthermore, they suggested improvement of internal operational structures to guarantee efficiency and effectiveness.

Finally they observed that the career development should be streamlined and merit should be observed to guarantee fairness. This observation according to them was based on some cases were merit was not observed in promotion and deployment of staff. Corporate governance at the very basic is about fairness, which should be a cardinal feature of the commission's activities including staff deployment and promotion.

4.5 Discussion

The context plays a key role in setting the framework for corporate governance practices at the individual organizational level. In any given set up, the legal system and corporate culture helps to set some corporate governance standards. From the foregoing, corporate governance practices at the Ethics and Anti-Corruption Commission has been shaped by the environment in which it operates.

4.5.1 Comparison of the Findings to Theory

The study disclosed that the commission practiced corporate governance as evidence by the presence a functional code of conduct and ethics, the board/commissioners, and a strong audit committee. These are the three main corporate governance instruments as disclosed by the underlying theoretical framework. It is therefore right to state that the findings of this study are in agreement with the theories that lay the foundations that support corporate governance. According to the respondents, the board/commissioners are play a critical and are responsible evaluating the management and issuing policy guidelines geared towards better performance. They represent the interests of the Kenyans, and are therefore agents and trustees of the organization's resources; and this agrees with the position taken by Private Sector Governance Trust (1999). The commissioners have a fiduciary duty to ensure that the organization attains high level of performance, as argued by the stewardship theory. They are accountable for the overall management of the commission and are committed to ensuring that its business and operations are conducted with integrity, and in compliance with the law, internationally accepted principles and best practices in corporate governance.

4.5.2 Comparison of the Findings to other Empirical Studies

Success and strategic positioning of an organization is the concern of every stakeholder in an organization. This success in made possible by the choice of corporate governance in place, which propels the achievement of the organization's objectives. This study found that a properly functioning corporate governance practices would propel the commission to the highest levels in performance. This is concurs with other earlier studies by Brown and Caylor (2009), on correlation of corporate governance and performance of organizations; whereby empirical studies reveal that institutions with stronger corporate governance practices perform better than those with weaker corporate governance. This study also found out that it was very essential for the corporate governance plans to be integrated in the wider strategic plans of the commission. By so doing, the corporate governance strategies are streamlined and made formal so that implementation is done in a structured manner. Formality specifies the degree of authority and discretion in decision making; and also provides a means of evaluating the relevance of a given strategy.

Further, this research showed that the employees of the commission felt that the corporate governance practices currently in place, especially the code of conduct were crafted without proper consultations. This has a potential to cause some resistance during implementation of the said regulations and ethics. The standard practice in strategic management is that, the involvement of employees in formulation of corporate governance strategies improves their understanding of the productivity-reward relationship in every strategic plan and thus heightens their motivation.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This topic gives a summary of the findings from the study, the conclusions, and a brief view on the challenges faced when conducting the research. It also covers the recommendations made pursuant to the findings and conclusions of the study.

5.2 Summary of Findings

Corporate governance is of great concern to any organization today because of its influences on the effectiveness and relevance of an organization's strategy. The study found out that the commission was practicing corporate governance through code of conduct, manual/disciplinary instruments, audit procedures and audit committees and also a clear reporting structure between the board and the secretariat. However the practice of corporate governance in the commission was hindered mainly by political constraints which restrict the performance of the organization. Cases of intermittent removal of managers create a vacuum which greatly interferes with the exercise of authority within the commission and this creates serious bottlenecks in the delivery of the commission's mandate. Passage of weak legal framework to govern the operations of the commission was also mentioned as an external political factor affecting the implementation of corporate governance and other strategies. Internally, it was felt that non-inclusivity in

crafting the commission's corporate governance resulted in implementation resistance. These challenges hinder the achievement of long-term objectives by the commission.

The study established that the commission had incorporated corporate governance in strategic management. This will enable the commission to monitor and control the corporate governance and other strategies during implementation. It will also ensure that items which were agreed upon through consultations while developing the strategic plans are implemented.

Both internal and external corporate governance mechanisms have been addressed by the commission and the government as some of the external mechanisms affect internal and determine some internal processes and thus influences the achievement of commission objectives.

The commission board assumes an important role in the operations of the institution and therefore its size would affect its performance. The commission has a small board size and this would be in tandem with international experience which indicates that smaller boards allow for better monitoring of management and less political interference. The strategic management of the commission includes the strategic position of the commission, strategic choices for the future and turning strategy into action.

5.3 Conclusions

The success of an organization's strategy largely depends on corporate governance practices employed. For instance corporate governance instrument such as the

board/commissioners is such an important organ that can make or break the strategic positioning of an institution. Corporate governance practice provides a means to recognize the dream of justifying risks and optimizing performance concurrently in today's aggressive and regulatory setting and therefore the integration of corporate governance in the commission strategic management will ensure that the commission strategic plans are achieved while at the same time gaining public confidence and increasing its efficiency and effectiveness

It is concluded that corporate governance reforms were the main instruments that the commission used in order to prepare itself for the responsibilities it tasked with. This process was combined with significant regulatory changes although the created institutional framework was not strong enough to enable the commission to undertake its strategic plans accordingly. The commission has undergone numerous changes since its inception to the current state where it has put in place significant corporate governance mechanisms. Continuous improvement of these corporate governance mechanisms is desirable to keep the commission at pace with the ever changing environment in which it operates. External political factors that impact on the continuity of the commission's management should be deliberately addressed by the government.

5.4 Limitations of the Study

The study faced a number of limitations. First, some of the respondents were not accessible as they were unwilling to be interviewed citing too much work, while others were out of office on leave and field work. It was also difficult following up some

respondents working in the field since their work required lots of movement. Another constraint was lack of seriousness in responding to the interview whereby some respondents preferred giving plain answers such as “YES” or “NO” without elaborating. However these limitations did not compromise the findings of the study since the respondents who appeared not to appreciate what interview guide desired to achieve, were well guided. Furthermore the number of respondents who were not interviewed was minimal.

5.5 Recommendations

The study found out that the government has undertaken institutional changes on the commission, however the legal framework in which the commission operates in is weak and thus not able to discharge its mandate effectively. It is therefore recommended that the government pushes for strong legislation of laws that would ensure that the commission discharges its mandate effectively.

The study established that the commission is often faced with uncertainties due to frequent changes in the top management, which are usually politically instigated. This seriously distorts the governance function of the commission, resulting in lack of direction in execution of the commission’s strategies including the corporate governance. It is therefore recommended that the government should guard the Commission against the impact of negative politics so as to allow the managers exercise their governance function and enable the commission carry out its mandate.

Additionally the Commission should consult all the stakeholders when crafting its strategies including corporate governance. By so doing the staff of the commission would find easier to live by the governance regulations borne out of their contributions.

5.6 Suggestions for further Research

The study confined itself to the Ethics and anti-corruption commission and the findings may not be applicable in other public institutions as a result of uniqueness of the commission.

It is therefore recommended that the study is replicated in other public institutions to establish the integration of corporate governance in strategic management. Replicated studies will inform comparative analogy on how various public institutions approach the concept of corporate governance, and how they incorporate it in strategic management. Arising from the varied findings and experiences, the best method of integrating corporate governance in strategic management could emerge.

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APPENDICES

APPENDIX I: INTERVIEW GUIDE

This interview guide will seek to establish how corporate governance practices are integrated in strategic management at the Ethics and Anti-Corruption Commission. The information obtained will be treated in utmost confidence and used only for academic purposes. Your participation in this interview will be appreciated.

The questionnaire is in three parts, **A** and **B**, and **C**.

Part **A** consists of questions aimed at obtaining background information about yourself and EACC. Part **B** seeks information on the corporate governance practices at Ethics and Anti-Corruption Commission, while Part **C** will determine the integration of corporate governance in strategic management practices at Ethics and Anti-Corruption Commission.

Section A: Interviewee Background Information

1. What position do you hold in the Commission?
2. For how long have you been holding the current position?
3. For how long have you worked in the Commission?
4. What is your level of education?

Section B: Corporate Governance

1. How important is corporate governance to your organization?

2. Does the institution practice corporate governance?

3. Does the organization take into consideration political constraints on its governance and management policies?

4. If the answer to the above question is yes, what effect do political constraints have on the operations of the institution?
5. Are there proper legal, regulatory, and institutional foundations that ensure efficient effective corporate governance structures in the organization?
6. Has the EACC corporate governance and strategic management enabled it to achieve long term strategic goals to satisfy all the stakeholders, and comply with the legal and regulatory requirements?
7. What do you suggest as the way forward for mitigating the effects of the challenges affecting corporate governance at EACC?

Section C: Integration of corporate governance practices in strategic management

1. Has EACC incorporated its corporate governance practices in strategic management?
2. What effect does incorporation of corporate governance practices in strategic management have on management of commission?
3. How has the external corporate governance mechanisms affected and determined the internal process of EACC?
4. Are there any major organizational changes that are associated with changes in major internal CG mechanisms, the board of directors and CEO/Chair appointment at EACC?
5. Does the regular dismissal of director and senior managers an indication for politicians and interested parties intervention and mismanagement?
6. Does the size of the board (number of commissioners) being small allow for better monitoring of management and less political interference?
7. Are the commissioners more engaged in, and influence the strategic management of the Commission?
8. Are the commissioners independent and allow for critical evaluation and monitoring of managers' performance?

9. What effects do the commissioners; being committed to their responsibilities, honest and objective, accountable and transparent in their dealings have on the commission strategic management?
10. What influence do commissioners have on the strategic management of EACC by ensuring that the agency is conforming to legislation and government policies and is achieving agreed outcome?
11. What effect does the implementation of ethical conduct provisions have on the commission's strategic management?

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