THE ROLE OF BOARD OF DIRECTORS IN CORPORATE GOVERNANCE AT THE NATIONAL HOUSING CORPORATION, KENYA

BY

KIMUYU, C.M

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

NOVEMBER, 2012

DECLARATION

This is my original work and has not been presented for a degree in any other university.

Signature :________________________ Date: __________________

NAME: KIMUYU CORNELIUS MULINGE

Registration Number: D61/76583/2009

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

Signature:________________________ Date:__________________

NAME: PROF. EVANS AOSA

ASSOCIATE DEAN

GRADUATE BUSINESS STUDIES

UNIVERSITY OF NAIROBI

DEDICATION

This study is dedicated to my Children; David Mshindi and Debrah Heri-Njeeri. There is much room for excellence in your generation.

ACKNOWLEDGEMENTS

I am indebted to my wife Njeri and children; Mshindi and Njeeri. You are the source of my inspiration to pursue success.

Sincere appreciation and credit goes to my supervisor Professor Evans Aosa for his kind, candid and professional guidance and instruction throughout the research period. God bless you prof.

National Housing Corporation staff members particularly the managing director, Mr. Patrick Bucha and senior technical staff deserve a share of the foregoing.

Above all, power, glory and majesty be to the Lord God almighty for giving me the grace to start and complete this study.

ABSTRACT

There has been dissatisfaction in the recent past with the way power is applied in corporate entities. The exercise of control over the affairs of corporate entities has been marred by irregularities and prominent weaknesses to collapses and loss of public investments. Collapse or failure of corporate entities is often associated and blamed on the board of directors. This blame comes in the form of complains of ineptitude, corruption, greed and incompetence. Although the board of directors has been depicted in theory as the heartbeat of the corporate entity, its role with regard to corporate governance remains largely unexplored. Mechanisms of appraising the role and performance of boards of directors have also not been clearly developed.

This study was set out to delve into the role that the board of directors at National Housing Corporation plays towards achieving good corporate governance. Data was collected from board members, senior management and technical staff and was appropriately analyzed to arrive at useful recommendations.

The study found that the role of the board of directors in corporate governance is yet to be clearly understood and that rather than facilitate the smooth running of the affairs of the corporate entity, it has become an impediment. There are complains of meddling from both the board and the management alike. These challenges are attributed to the loopholes created by the system of appointing and appraising board of directors' performance.

The study recommended that appointments to the board be made meritorious and structures be put in place to clearly set out the boundaries of responsibility between the board and management. Further study should be devoted to the relevance of the board of directors in today's corporate divide and the sources of conflict between management and the board of directors.

TABLE OF CONTENTS

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Dissatisfaction with corporate entities' governance has increased in recent years with concerns of poor performance. This has led to collapse of many giant corporate entities. When this happens, the better part of blame goes to the board of directors and indeed the trend has been to suspend or fire the entire board while sparing the management (Hamilton and Micklethwait, 2006). This dissatisfaction has led to the emergence of large institutional investors seeking controlling share holding in most of the listed corporate entities. Various tools have been applied to ease the problem of corporate failures including giving top managers heavily packaged incentives. Integrity challenges have continued to rock corporate entities with boards of directors being hired and fired without much avail (Charan, 2005).

Corporate governance is as old as corporate entities themselves although its recognition as a distinct body of knowledge came in the 1980's. It is defined as the exercise of power over corporate entities and has become the driving force for enterprises in the 21st century although the evolution of its underlying concepts and principles is yet to gather the requisite momentum (Tricker, 2009). In the early days of corporate development, the major objective of the entity was to satisfy its shareholders but the bracket of demands has since expanded to include government, the public, corporate raiders and civil society who cannot be ignored in major decisions. Good corporate governance remains the hope of sustaining the relationship between stakeholders and the artificial person called corporate entity (Cheffins, 2011).

Hamilton and Micklethwait (2006) observed that there are many causes of corporate failure which include but are not limited to poor strategic decisions, overexpansion and ill-advised acquisitions, dominant CEOs, greed and desire for power, failure of internal controls and ineffective boards of directors. He singled out ineffective board of directors as the key culprit in corporate collapses since all the other causes are based on decisions sanctioned by the board.

Macey (2008) argues that globalization and its effects on the corporate entity have been widely discussed over the last two decades. The effect has been the change of approach in political, economic, regulatory and most importantly governance regimes throughout the corporate divide. Although there have been attempts to establish effective models for economic and political integrity, there has been resistance to the tenets of corporate governance due to the fact that institutional change is path dependent.

Lowery (2008) observed that the last decade has also witnessed the fundamental shift of the focus of corporate governance from state to market with the corresponding change from bureaucratic to judicial protection of investor interests. This has been necessitated by the significant loss of trust in the corporate entity. As a result, administrative discretion is increasingly being replaced by the rule of the law and the quest for integrity in the management of the corporate entity.

Cornforth (2003) noted that governments use their agencies to execute their mandates and quite often are tempted to use these same agencies for political ends. This leaves little room for watertight and transparent regulatory frameworks and corporate structures.

1.1.1 Corporate governance

Pacces (2010) discussed corporate governance as involving a set of relationships between an entity's management, its board of directors, shareholders and stakeholders. He described it as the framework within which the objectives of a corporate body are set and the means of attaining those objectives while monitoring performance.

Coffee (2006) sees corporate governance as the way a corporation is governed, the technique by which corporate entities are directed and the means of carrying out business as per stakeholders' expectations. He correctly argues that corporate governance has to do with the rules, processes or laws by which businesses are operated, regulated and controlled.

These two points of view place a high premium on the perception by stakeholders on the way the affairs of corporate bodies are managed for profitability or realization of the set objectives. This means the board of directors must prioritize the subject of corporate governance with view to satisfying the expectations of the stakeholders who in most cases include the general public.

Bainbridge (2008) highlights two advantages of corporate governance. He argues that corporate governance gives stakeholders confidence that the entity is well managed and that the directors are acting the best interest of the corporate entity and that of investors. He further points out that corporate governance guards against defrauding of stakeholders by rogue boards of directors by ensuring transparency in the management of the affairs of the entity.

1.1.2 The board of directors and management

In the early corporate development years, Berle and Means (1932) noted that directors were virtually appointees of founders or chairmen of private companies or firms ratified by shareholders who were then usually not many. As the corporate divide grew, the problem of self perpetuating boards emerged since it was not possible for shareholders located far across the world to influence the choice of directors from the host country, whom they particularly did not have personal knowledge about.

Tricker (2009) argued correctly that the roles and responsibilities of the chairman of the board and the chief executive officer remain the most contentious and unresolved issue in corporate governance. The chairman of the board is appointed by directors from amongst themselves while the chief executive officer is a member of the management through which the board's decisions and policies are implemented. The role of chairmanship and that of chief executive officer have often been combined and delegated to one person, a philosophy that has been fought by scholars of good corporate governance over the years.

The board therefore remains the epicenter of corporate governance in any enterprise. All the principles of good corporate governance centre on the board of directors. Generally accepted accounting principles and other measures were introduced to curb the perceived abuse of corporate power by boards and executive employees of corporate entities. When corporate entities collapse boards are blamed because they are directly responsible to the owners. Tricker (2009) found that weak and ineffective boards of directors have a direct bearing on performance and that some of the consequences of such boards are corporate failures and total collapses. The overall effect is loss of public confidence, loss of public wealth and huge public debts.

1.1.3 State Corporations in Kenya

The sessional paper number 10 of 1965 outlines grounds upon which state corporations are established. They include the need to accelerate economic and social development, redress economic imbalances, increase public participation in the economy, promote indigenous entrepreneurship and promote foreign investment. State corporations thus play a critical role in provision of essential public services such as education, housing, transport, health care, energy and basic commodities.

State Corporations in Kenya are established under the State Corporations Act; Chapter four hundred and forty six (Cap. 446) of the laws of Kenya by order of the President to perform and deliver certain critical services which the private sector may find constraining or unprofitable to engage in. Their governance structures, board composition, remuneration and powers are provided for in the Act which also establishes the office of the inspector general (Corporations) to monitor and evaluate the performance of state corporations (State Corporations Act, 1987).

Atieno (2007) noted that most of the state corporations in Kenya are riddled with inefficiency, losses and provision of poor services and substandard products. Some of them have collapsed owing to corporate failures and weakness in corporate governance. They include Kisumu cotton mills, Panafrican paper mills, Wananchi saw mills, Makueni ginnery, Kenya cooperative creameries and Nairobi oil products.

The report on review of statutory boards contained in the sessional paper number 2 of 2005 which gave birth to the privatization Act, Cap 485 of 2005 singled out several challenges facing state corporations. They included growth which was not accompanied by efficient monitoring and control systems, clear evidence of gross inefficiency, financial mismanagement, waste and managerial malpractices, deviation from core mandates to partisan and irrelevant ventures and politicization of decision making. The report recommended privatization of non-strategic state corporations.

1.1.4 The National Housing Corporation

The National Housing Corporation is a statutory body established by an Act of parliament, the Housing Act, Chapter 117 amended in 1967. The Act provides that the Corporation shall have a board of directors consisting the Permanent secretaries of Finance and Housing and an additional eight members appointed by the Minister in charge of Housing.

The mandate of the Corporation as stipulated in the Act includes development of decent and affordable housing and research and development in the delivery of housing to the Kenyan populace. The corporation has several departments and regional offices in major towns through which it operates.

1.2 Research problem

The importance of good corporate governance in the 21st century cannot be overemphasized. Macey (2009) argued that with globalization rapidly increasing the scale of trade and the size and complexity of corporations and the bureaucracies constructed to attempt to control it, the importance of corporate governance and internal regulation has been amplified as it becomes increasingly difficult to regulate externally. Furthermore, the economic and financial crisis facing most of the giant corporate bodies have caused shareholders to be more vigilant to guard their interests. Shareholder activism has also aroused the curiosity of the general public and calls for boards to practice integrity in the exercise of corporate power have increased in the recent past. The principles of good corporate governance which include integrity of the board and management resonate around the board of directors. Ogola (2010) and Charan (2005) noted that boards of directors have been seen as the decay from within and this has led to the collapse of many corporate entities. He also noted that company law is yet to bring the desired sanity and integrity in the corporate divide.

State corporations in Kenya are established to compliment the government’s efforts in providing essential services and commodities to the public. The state corporations act (Cap. 446) outlines the governance structure of state corporations and puts in place board of directors as the overall manager of state corporations. Most of the state Corporations in Kenya are grappling with gross inefficiency which has led to collapse of a number of them (Atieno, 2007). The privatization Act (Cap. 485) sought to address the shortfalls of statutory boards by proposing privatization of the Corporations which were deep into debt. The National Housing Corporation was among the corporations whose capital was restructured to increase efficiency. Established by an act of parliament, the corporation is managed by a board of directors appointed by the Minister for Housing as per the Housing Act (Cap. 117).

Several studies in corporate governance in both public and private entities have been carried out. The studies have been devoted to several aspects of boards of directors including their practices in corporate governance. They include Sala (2011), Mulinge (2007), Musyoki (2006), Gathika (2006) and Wachira (2004). These studies have found that although boards of directors are expected to play a homogeneous role in all corporate bodies, there are variations with regard to the specific role in each organization. They found that in many organizations the line between the board and management is thin and that the role of setting policy and direction is best understood and executed by the management rather than the board of directors. The studies found that in many organizations boards of directors are largely ceremonial structures which are undesired by the management.

Corporate governance in the wake of globalization and shareholder activism in the 21st century remains a matter of importance in the corporate divide. Its principles provide checks and balances for the application of power in corporate entities thereby ensuring efficiency and overall relevance of corporate mandates. The board of directors is a key pillar and indeed the hallmark of corporate governance. Different organizations approach the subject of corporate governance and the board of directors in varied ways. The National Housing Corporation is no exception and should found its success on the tenets of good corporate governance. What is the role of the board of directors in corporate governance at National Housing Corporation?

1.3 Research objective

The objective of this study was to establish the role played by the board of directors in corporate governance at the National Housing Corporation, Kenya.

1.4 Value of the study

This study will make a major contribution to the corporate governance practice. Areas for potential improvement can be explored to facilitate government, investors and stakeholders in making better strategic decisions concerning boards of directors with view to sustaining or inculcating high levels of good corporate governance.

Secondly, little research has been conducted into the specific role of the board of directors in the corporate governance practice. This study will make a major contribution into the body of knowledge and research conducted in the field of corporate governance. This will also prompt further research on the subject.

Lastly, the findings of the research will go a long way in influencing policy decisions in corporate governance especially in the public sector. It will provide insight to policy makers in government and private sector in so far as corporate governance is concerned.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter discusses corporate governance from the point of view of the board of directors. It further focuses on the evolution of the board of directors, its functions and the various structures. The chapter also looks into the efficiency of the board and the challenges facing board's decision making. The chapter concludes by discussing the future of the board of directors and gives an understanding of the board of directors in the context of its suitability and ability to influence the practice of good corporate governance.

2.2 Corporate governance

Clarke (2004) defined corporate governance as the way corporate entities are governed and the exercise of power over corporate entities. Cadbury (1992) reiterates that corporate governance is the way in which companies are directed and controlled. Hilmer (1993) observed that the board of directors plays a critical role in ensuring that the entity remains above average in satisfying stakeholders' needs and aspirations. These assertions point to the fact that corporate governance involves various actors key of which is the board of directors. Monks and Minow (2001) however take the view that good corporate governance should incorporate all the elements that may affect in one way or another the manner in which power is exercised within the entity.

Several theories have been advanced by various scholars to explain corporate governance. Jensen and Meckling (1976) advanced the agency theory and explained corporate governance as a contract involving one or more persons called shareholders who engage other persons called directors to perform some functions on their behalf.

He laments that if both parties are utility maximizers, there is good reason to believe that the agent will not always act in the best interest of the shareholders.

Stiles and Taylor (2001) advanced Williamson's (1975 and 1988) theory of transaction cost economics arguing that success of corporate entities depends on checks and balances. This stems from the basic assumption that directors and managers are given to opportunism and self seeking interest. Tricker (2009) advanced the stewardship theory arguing that directors don't have to act for their own selfish interests but are trusted stewards of the owners of the entity. He found that conflicting interests between owners and directors can be weathered down by the forces of a free market. The issue of accountability and transparency on the side of the directors however remains a big problem in today's vast corporate divide where shareholders are remotely connected to the entity.

Tricker (2009) discussed the resource dependency theory arguing that the board of directors is like a network of links between the entity and its environment. This assertion leaves a lot to be desired since the existence of the entity does not have to be based on the board of directors only. LeBlanc and Gillies (2005) in advancing the managerial and class hegemony theory focused on the fact that the view that directors have on themselves and the entity dictates their behavior and relationships thereby influencing the entity's performance in terms of governance. Steinberg (1997) in supporting the stakeholder philosophy argued that stakeholders' views are fundamentally flawed and that potential conflicts between different shareholders' expectations were irreconcilable. Clarke (2007) adds his voice to the discussion of theories by advancing the systems theory. He argues that theoretical perspectives on boards and governance can best be seen as a 'multiple theoretical lenses.'

2.3 Instruments of corporate governance

Lowery (2008) identified financial discipline as one of the most critical pillars of corporate governance. He argued that finances were the means of survival in all corporate entities and that whether profit oriented or not, entities ought to handle finances in a manner that gives satisfaction to both its internal and external stakeholders.

In discussing the essentials of corporate governance, Anand (2007) singled out the board of directors as a strong instrument in ensuring corporate governance. He noted that the board of directors consolidates the expectations of the management and harmonizes them with those of the stakeholders striking a balance between these demands and the available resources. The board thus remains the central focus in driving corporate governance in organizations.

Bainbridge (2008) noted that customer management remains a critical tool in ensuring and sustaining corporate governance. He described equity in the treatment of stakeholders and especially those with minority interests as key in curbing dissent and cultivating confidence in the organization before the eyes of investors.

Transparency and disclosure, as noted by Clarke (2004) is the other effective tool that corporate bodies employ in ensuring corporate governance in organizations. He noted that all interests should be disclosed appropriately to avert conflicts which dent the image of corporate entities in the eyes of investors and stakeholders. Members of management as well as those of the board should conduct their business with entanglement from personal interests and where such interest are likely to hurt the performance of the entity, such interest should be declared from the onset.

2.4 Evolution of the board of directors

In the 20th century, organization theory developed and became even more complicated with time but the emerging structures largely ignored the board of directors. In fact, although the board of directors is the governing body of any corporate entity, little concern was shown for the role played by directors. Board of directors is accountable to stakeholders who are the owners of the enterprise. It is accountable to them on the enterprise's performance yet its role remains largely unexplored and vague (Sarra, 2003). Ogola (2010) noted that the 19th century was labeled the century of the enterprise while the 20th one was known for its advances in management.

The 21st century saw the proliferation of corporate entities with many of them floating shares to the public so as to raise money for their operations and allegedly make wealth for the shareholders. The corporate divide has since widened across the world and the link between shareholders and board of directors has become largely remote. Shareholders do not have many options besides trusting the board of directors to formulate policies which will maximize on their investment. This trust has often been abused and there have been efforts to constitute boards from among competent internal members (Tricker, 2009). In the 1970's emphasis was shifted from internal to external boards of directors in a bid to stem the growing threat that directors were just ceremonial with no active role and responsibility despite their roles as spelt out in the then emerging company law.

The 1980's came with a sustained push by shareholders for directors to increase their value of investment since profit performance had become the basis for privatization. The public began to see board of directors as burdens since collapse of many corporate entities had been witnessed. There resulted a conflict between shareholders and boards in the 1990's that shareholders investments only benefitted boards and not the owners of capital, that directors and executive managers were living happily at the expense of investors and that the chief executive officers were colluding with the boards or indeed the company management had much influence on who joins the board of directors (Tricker, 2009).

Tricker (2009) classifies directors into certain categories as opposed to company law which places all directors at the same level. He defines an executive director as one who besides being a member of the board also plays executive or managerial roles in the entity. A non executive director is one who does not hold any managerial role. An independent non executive director is one who has no other relationship with the entity except the directorship. The affiliated or connected non executive director is one who has some relationship with the entity and is not a member of the management. He laments that although independence is critical in decisions, it is difficult for director's to be fully independent. Tricker (2009) also adds to the list the shadow director who he describes as one who is not formally a member of the board but is able to exert pressure on the decisions of the board. Charan (2005) identifies several grounds upon which directors are appointed. These include reappointment, expiry of term of office and vacancy arising from resignation, death or inability of a number to service.

Tricker (2009) tables four types of board structures which include the all executive directors' board, majority executive directors board, majority non-executive directors board and an only non-executive directors board. Hamilton (2006) looks at the advisory board which is an organ set up by the core board for advisory purposes. He advances his belief that directors have fiduciary duty of care, loyalty and obedience to the investors and that whatever structure, the role is always same though often abused. Tricker (2009) adds that advisory boards are popular with international firms for purposes of giving advice to corporate directors. Advisory board members may choose to attend board meetings or not attend any altogether.

Hilmer (1993) found that boards function through three main committees namely; Audit, remunerations and nominating committees. Tricker (2009) emphasizes that the audit committee is critical because it assures the shareholder that what the directors are presenting as performance is true. There however can be some level of collusions between the auditors and the Managing Director leaving the board in the dark. Charan (2005) notes that the remunerations committee comprises mainly of outside Directors who not only deliberate and agree on the CEO's remuneration but also sets the remuneration for top managers' of the entity. Ramsey (2002) however notes that the role of designing remuneration for Directors should not be left to fellows in the same boards but should be assigned to outside and independent Directors or financial firms. He found that packages aimed at encouraging exceptional performance by Directors could easily lead to exceptional deceptions to the shareholders by the same well remunerated Directors.

Carter (2004) describes the nominating sub-committee of the board as a water tight mechanism of preventing the board from becoming a club of like-minded fellows who appoint their cronies and sycophants to join them for selfish interests. Overwhelmed boards form diverse committees and name them accordingly to handle specific responsibilities assigned to them. The composition of these committees is what makes shareholders gain or lose or more particularly, it is what drives corporate governance. Tricker (2009) however points out that it does not matter the structure, size and composition of the board, it is the kind of people in these boards who determine the level of corporate governance since governance is largely about personalities, politics, power and systems.

2.5 Functions of the Board

Kakabadse and Nada (2007) discussed the functions of the board as being inward looking at the enterprise and outward looking towards the entity's external situation which focuses on the past, present and strategic future. Tricker (2009) identified four major functions of the board which include strategy formulation, accountability, policy making and monitoring and supervision of executive activities of the corporate entity.

Clarke (2007) explores the board's role of strategy formulation and notes that many people believe ignorantly that strategy in corporate entities is formulated by top managers. He noted that boards dominated by executive members have been found lacking in capacity to direct objectively since this would be like marking their own examination papers. On the other hand, outside Directors may not know enough about the operations of the corporate entity to be able to make strategic choices and decisions. Charan (2005) found that most of the directors hardly afford sufficient time to input any meaningful material in strategy. They are credited as the champions of the corporate strategy, although, often times, they do not even know what the strategy entails. This situation exposes shareholders to lots of vulnerability. Tricker (2009) critically examined the role of board members in strategy formulation and found that in order for board of directors to be effective in strategy formulation, it requires to have a helicopter view of the corporate entity. However, in many corporate entities, boards do not have the muscle to look at the corporate from above. The best positioned person for this role would be the Chief Executive Officer.

Monks (2005) noted that outside or independent directors cannot have sufficient interest to be fully committed to strategy formulation for a firm in which they have not invested. Styles and Taylor (2001) observed that strategy and its implementation is critical in corporate governance. Boards of Directors are incapable of developing comprehensive and realistic strategies due to their absentia tendency. There needs to be a more robust process and system of formulating strategy which involves the board but engages those who understand the entity inside and outwards also. Board directors are not likely to find time to study the business environment and carry out SWOT analysis for the purposes of strategy formulation on their own. Tricker (2009) also identified policy making as one of the key roles of the board of Directors. He found that strategies could simply remain statements of intent unless they are translated into policies so as to operationalize them.

LeBlanc and Gillies (2005) observed that directors must transform strategies into procedures, plans, rules and guidelines to make sure corporate achieve the objectives for which they are set up. However, the ability of the board itself to do the rules to finer details yet they are mostly not conversant with the inside operative details remains a challenge. Hilmer (1993) found that in most cases, the function of policy making is largely delegated to the top management. The questions of whether top managers can make rules which curtail their laxity still remain unanswered. Tricker (2009) sees the most critical function of the board as that of supervising and monitoring the operations of the executive using certain financial and non financial tools. He notes that use of financial statements and budgetary controls has been the practice for many years. Steinberg (2000) however notes that the reported financial performance of a corporate may not necessarily reflect its true position since collusion can be done between the auditors and management.

Tricker (2009) laments that with the current complexity of financial reporting, fewer and fewer shareholders can understand the content and spirit of the reports presented among many footnotes and commentaries and opt to just do with the commentaries which do not tell much about actual performance. Questions of what creates value for the company, what makes it profitable and the level of risk in the business can hardly be answered by financial documents in the eyes of the common shareholder. The role of the board would therefore be to try its best, in simple language to explain the meaning of the accounts presented to shareholders. This hardly happens because of the fear that if shareholders get to know the hard truth, they may be not wish to continue investing. The whole question of transparency remains a convoluted syndicate which the board cannot straighten (Hamilton, 2006).

2.6 Corporate governance at board and below board level

Tricker (2009) noted although there are rules to guide board procedures, the reality is usually far from what the books say. The board is more political than it is meant to be display prominent persuasions about interpersonal relations, perceptions of position and prestige and power. Ramsey (1987) correctly observed that board decisions are largely about human behavior and not really about merit or constructive argument. Most of the times, the rules and structures are often flouted with no apologies or regrets. Roe (2003) argued that directors cannot have enough information to make any meaningful decisions since they are not privy to the daily operations of the entity and any briefs they get can be tilted towards a particular pre-determined end.

Tricker (2009) identifies several factors which sway the board's decisions one way or another which include; dominant shareholders e.g. the board of a whole owner subsidiary, threats of potential takeover, prospects of litigations, auditors influence, effects of legislations and regulations, media pressure and external exhortation, risk of damage to personal reputation, dominant charismatic leaders, changing business circumstances, knowledgeable directors, organizational power, networking and ownership power. Thomsen (2008) noted that board members do lots of lobbying for their courses and since most of them are lacking in technical competence, they can be used by those who have high level technical expertise to influence discussions their way. Tricker (2009) exposed the tricks that board members use to push their partisan interests in board meetings. They include alliances, coalitions and cabals, cronyism, deal making, divide and rule, empire building, propaganda, camping, scaremongering meeting manipulation which may take several shapes such as Agenda management, hijacking the chair, predetermined outcomes, postponement, quorum challenges and abuse or mismanagement of minutes.

Tirole (1996) found that boards differ from one to another in terms of traditions, corporate vision, innovation, control, decision taking, commitment, coloration, conflicts, relationships, trust and communication and highlighted the importance of the chairman of the board in decision making. He lamented that many people blindly esteem the chairman of the board as though he or she was the chairman of the corporate entity. He argues that chairmen of boards differ in personality and hence the common talk of powerful and complacent chairman.

Tricker (2009) discussed the very critical role of the board's chairman in influencing decisions and making the entire board arrangement appear like a rubberstamping fellowship. He elaborated that the chairman manages the board entirely by determining its size and structure subject to articles by which the entity is established. The chairman also manages meetings and can therefore exercise much discretion in marginalizing the views that are in contradiction to his or her persuasions. The chairman also links the board to the management and can again deliberately withhold or distort information to influence certain preferred ends. The chairman also wields much power in arbitrating between board members. Besides, the chairman is the face of the enterprise and will have fair treatment among peers which predisposition may tempt chairmen to cut deals and force the same deals cunningly down members throats in board meetings.

Solomon (2004) noted that an efficient board must put in place a policy on which decisions can be delegated to top management and those that must remain within the helm of the board. There is however a great possibility that even those that are never meant for top management can percolate to the management if the board is not cohesive enough. Tricker (2009) posed six critical questions which boards ask themselves with regard to what their role could be in the context of the dual existence of management and the board as tools of ensuring corporate governance. These questions resonate around what the real role of the board is, how boards should relate to top management, how much freedom of action should be left to the managing director and how exactly boards contribute to the entity's performance.

2.7 Efficiency of boards of directors

Anand (2007) argued that the efficiency of the board of directors can be felt through a number of criteria which include management of meetings, management of committees, board information and the company secretary. Tricker (2009) observed that the audit committee is critical in ensuring internal and external controls to protect shareholders investment. He notes that board accountability can only be ensured through a non compromisable audit committee. The audit committee must therefore be above levels of cabals and lobbying since it advises the board on the performance of external auditors. Where such a committee negates it integrity, deals may be cut between it and the external auditors to conceal critical information or make information unpalatable for any serious decision (Leblanc and Gillies, 2005).

Spira (2002) also observed that the nomination committee of the board which is credited with lots of independence can also be manipulated by interested board members by proposing and supporting vehemently a staggered approach to replacing the members in order to ensure some continuity and protection of partisan interests. He argues correctly that annual elections for all the board members without renewing terms would cure some of the corporate governance problems associated with boards. Tricker (2009) argued that board meetings, minutes and agenda constitute a very critical component of the overall integrity and governance of the corporate entity. He noted that the manner in which meetings are called, conducted and recorded should be above the threshold of corporate governance and integrity at all times. All information necessary for prudent decisions should be availed to all directors before the meeting.

According to Lorch and McIver (1989) the tragedy in the efficiency of board of directors is that directors cannot opt out of some decisions because they are not experts in the fields in discussion although they may rely on briefs provided. They may also rely on fellow directors' good faith which may be misused to hoodwink them to sanction skewed decisions. In the overall picture, the efficiency of such a board remains wanting because it hangs on the minds of a few members who are either well versed with the particular field or have been lobbied to push for certain partisan courses (Carter, 2004).

Tricker (2009) found that many corporate entities seek to induct and train their board members in order to bolster both performance and integrity although many of them have continued to suffer collapses even with intense training pointing to the fact that there is much under the surface in boards that needs to be explored and unearthed.

Cadbury (2002) argued correctly that the issue of directors' remuneration vis a vis their performance remains contentious because in the face, it appears like rewarding failure since the success of many corporate can be directly associated with board of directors. Cornforth (2003) also noted that directors can engage in all manner of schemes to bolster share prices if the entity gives them share options. Once directors have obtained considerable amount of shares in the entity, they even manipulate its value more and trade off their shares whenever any serious risk looms. It is the investor who stands to suffer and the role of the board in ensuring good governance is an issue that can be debated for long.

2.8 Assessment of directors' performance

According to Tricker (2009) the idea that directors' performance could be appraised was not received well when it was mooted but has now gained currency due to increased pressure from shareholder. He argues that the basis for appraising directors can be established in the letters of appointment and that the parameters for appraisal could include commitment, skills required, specific expertise, reason of appointment and experience.

Hilmer (1993) noted that the undoing in director's appraisal is that the chairman wields lots of discretion in deciding who appraises the directors and that whether it is a senior non executive independent director or a consultant or a committee of the board, there is an open window for manipulation. The appraisal may be skewed towards an intended outcome which marginalizes a dissenting voice or vindicates a cabal or a crony. Charan (2006) insisted that the appraisal exercise was largely a cosmetic process since there would be no commensurate sanctions for directors found to be under performing. This is because performance is a collective responsibility of the entire board and it would be difficult to apportion failure and let each director take their share of consequences. Hamilton & Micklethwait (2006) while arguing that the dilemma in board of director's appraisal is that of who appraises the chairman also noted that the entire board's performance needs to be appraised besides that of individual directors.

The review of overall board's performance has been mooted as cure for the rampant lapses in corporate governance in many entities. The holistic review would entail a comprehensive review of board structure, profiling of board members, review of board style and efficiency and board development strategy. Several questions need to be answered in determining overall board's effectiveness and performance. These resonate around how the board defines its role, how auditing functions are carried out, and board's role in determining its compensation and whether the board has the right mix of skills and expertise to deliver (Tricker, 2009).

2.9 The future of the board of directors in corporate governance

Chew and Gillan (2005) note that corporate governance and especially the role of directors is at crossroads in the 21st century. He argues that the role of the chief executive officer and that of chairman should be held by separate individuals who should be subjected to stringent checks and balances from independent observes and fellow directors or colleagues. The idea of having top executives being invited to board meeting could also help the board remain properly informed of the operative challenges of the entity on a regular basis.

Lipton (2007) argued that shareholders although being the owners of the entity have been marginalized to levels where they cannot determine who joins or leaves the board whether it is due to non performance or conflict of interest. Directors have created a protected ring around themselves wilding so much power in determining who joins them. The shareholders on endorse the directors nominees and this negates the principles of good corporate governance. Tricker (2009) predicts that there is going to be lots of vibrancy in the board room in the next business dispensation due to increased shareholder awareness and activism, international accounting requirements, high and changing society expectations and the emergence of new and complex organizational forms.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The chapter presents the methodology of research employed in the study. It opens by proposing the design used and goes further to indicate the process and tools of data collection as well as the respondents. The chapter closes with an insight into the data analysis method and tools employed.

3.2 Research design

This was a case study. Kothari (1990) recommends case studies on the strength that they uphold a deeper understanding of the subject of study by allowing elaborate scrutiny. This assertion is also supported by Mugenda (2003) who insists that a case study entails an in-depth investigation of an individual, institution or phenomenon. Yin (1994) defines the case study research method as an empirical inquiry that investigates a contemporary phenomenon within its real-life context when the boundaries between phenomenon and context are not clearly evident.

Cooper and Schindler (2006) noted that a case study is a detailed investigation of a single individual or group. The defining feature of a case study is its holistic approach. It aims at capturing all of the details of a particular individual or group. Single-case studies are an examination of one individual or group while multiple-case studies use replication. This helps to examine how generalizable the findings may be (Hamel, 1993). The advantages of a case study are numerous including the inherent capability to develop analytical and problem solving skills, allowing for for exploration of solutions for complex issues and allowing researchers to apply new knowledge and skills in other fields of management and profession (Yin, 1994).

3.3 Data collection

The study made use of both primary and secondary data. Hamel (1993) noted that data gathered under case studies is normally largely qualitative, but it may also be quantitative. Tools to collect data can include surveys, interviews, documentation review, observation, and even the collection of physical artifacts.

Primary data was collected using the interview guide (see appendix 1 and 2).The guide was structured in a way that sought the understanding of the subject by the respondents before proceeding to ask them questions. Mugenda (2003) defines an interview guide as a set of questions which guide the interviewer while extracting information from respondents. Yin (1994) outlines the advantages of interview guide as including that it supplements respondent's lack of reading skills to answer a questionnaire, is useful for untangling complex topics, allows the interviewer to probe deeper into a response given by an interviewee and that interviews produce a higher response rate. The researcher was looking for certain definitive words used to describe the subject of study by all respondents.

The study targeted board members, top managers and technical heads. Board members have the overall view of the Corporation and their view of what could be their role was important in this study. Top managers are members of the management who regularly meet the board to appraise it on the implementation of the board's decisions and as such their thoughts on the role played by the board in corporate governance were valuable. Technical heads are the originators of strategies approved by the board and are useful in providing feedback on the success or failure of such strategies to the board. Their views on the role of the board especially on strategy formulation were critical in this study. The company secretary and the managing director are involved in the daily operations of the corporation especially where issues of corporate governance are involved. Their views were very useful in this study.

Secondary data was obtained from Corporation publications which included magazines and newsletters as well as brochures and reports in the library. This was utilized along with the analyzed primary data to help develop relevant conclusions from the data collected.

3.4 Data analysis

Primary data was analyzed through content analysis. This was carried out by identifying common descriptive words and phrases describing the role of the board of directors in corporate governance. Due to the fact that it can be applied to examine any piece of writing or occurrence of recorded communication, content analysis is used in large number of fields, ranging from marketing and media studies, to literature and rhetoric, ethnography and cultural studies, gender and age issues, sociology and political science, psychology and cognitive science, as well as other fields of inquiry (Yin, 1994).

Content analysis offers several advantages to researchers. Particularly, content analysis looks directly at communication via text and hence gets at the central aspect of interaction, allows for both quantitative and qualitative operationsm, provides valuable historical and cultural insights through analysis of texts and can be used to interpret texts for development of expert systems (Hamel, 1993).

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents data collected and analysis. Data is presented in terms of the various thematic areas of the interview guide. Interpretation of data analyzed is provided for every thematic area. These thematic areas are the various roles played by the board of directors at the National Housing Corporation with regard to corporate governance.

4.2 Role of the board of directors at National Housing Corporation

Respondents indicated that the board plays various roles in ensuring the smooth running of the affairs of the corporation. Four specific roles were singled out as the most prominent.

4.2.1 Board's role in policy development

The board of directors sets the policy framework within which all the technical and operation activities of the corporation are carried out. Respondents noted that the board sanctions the general footing upon which all rules, procedures and systems in the corporation are hinged. However, respondents indicated that the board's suitability and adequacy in policy development is hampered by the nature and composition of the board.

Respondents indicated that the board of directors at National Housing Corporation comprises nine members. Five of them are appointed by the Minister in charge of

Housing while the others are the permanent secretaries from stakeholder Ministries which include Ministry of Lands for facilitation of land issues, Ministry of finance for the purpose of fiscal advice, Ministry of planning and the inspector general of state corporations.

The researcher found that the permanent secretaries appoint their representatives who in most cases are administrators with little or no technical knowledge in the field of housing development and management. This makes their contribution in policy development and oversight minimal or irrelevant and leaves the corporation at a disadvantaged point.

Appointment of the managing director is done by the Minister in charge of Housing from names proposed by the board. Respondents pointed out that the Minister wields lots of power in composing the board and this was a fertile ground for conflicts between the management and board. Respondents indicated that the size of the board is fixed by the state corporations Act but there are no rules or criteria to be followed while appointing board members. This leaves a lot of room for political appointments and recycling of retired and redundant persons. Respondents also indicated that there was completely no merit in board appointments. The only guideline applicable is that for one to be appointed to the board, they should have knowledge in housing matters. This requirement is too general for efficiency and competence in matters of policy making.

The board's role in policy making was found to include the formulation of the corporation vision and mission. The researcher found that the board originated the vision and mission of the corporation and reviews it regularly to be in agreement with market dynamics and the requirements of the constitution.

4.2.2 Board's role in strategy formulation

Respondents observed that although the board should formulate the strategic direction and plan for the corporation, such strategic direction and plan is originated by technical heads who are in charge of the core functions of the corporation which include delivery of affordable housing to the nation. Due to the fact that the board is constituted from among persons of varied professional backgrounds and experiences, it is not advantaged in developing professional strategies but sits to sanction those that are developed by the technical persons.

Respondents indicated that understanding of the entire process of strategy formulation and strategic planning is crucial for the success of the Corporation and that the board lacks the professional capacity to have such an understanding. This means that where the technical and professional persons err in strategy formulation, the board will continue to sanction and approve a nonstrategic decision which will negatively impact on the general progress of the corporation.

The researcher found that due to the board's limited capacity to understand the housing sector and its dynamics in sanctioning strategic decisions, some of the Corporation's estates meant for sale tarry in the market for unnecessarily longer periods of time resulting in immobilized capital that could be deployed profitably in other ventures. Respondents noted that poor strategic planning exposes the corporation to the loopholes of impunity and portrays it as an institution without strategic direction.

4.2.3 Board’s role in leadership

Respondents indicated that they understood the leadership role of the board to mean the influence that the board of the corporation has over its stakeholders and the capacity to project the correct image of the corporation in public. With regard to corporate governance, respondents pointed out several leadership roles the board of directors play at the National Housing Corporation.

The research found that the board’s role in accountability was critical in ensuring good corporate governance and that were no clear mechanisms of holding the board accountable to its decisions. The Corporation performance contract is signed between the Ministry of Housing and the managing director on behalf of the Corporation but the board supervises the managing director and management.

Respondents indicated that the board’s transparency role has remained elusive due to the fact that it operates through committees. The researcher found that committees have been used to investigate the Corporation’s activities but the resultant information is disseminated discriminately leaving even sections of the board in the dark. The board of directors has also acted in some occasions without transparency to the management. Respondents indicated that there were cases where the board dealt directly with the technical managers leaving the top management in the dark.

The third leadership role identified by respondents was integrity. Respondents indicated that the integrity of the Corporation was at stake with several complaints of impunity by the general public. The researcher found that the board had not done much in ensuring that the policies and strategies used to govern the Corporation were tight enough to prevent graft and abuse of office. Respondents indicated that the policies on allocation of houses, which had been sanctioned by the board, had integrity issues resulting in multiple allocations.

Respondents also identified motivation as a key leadership role of the board in the context of corporate governance. The researcher found that the motivation levels were low among all cadres of employees and that the board had not done much in putting in place robust career progression systems to motivate the staff.

4.2.4 Board’s oversight role on management

The researcher found that the board has a well cut out oversight role on the management of the corporation and that in an ideal situation, al the directives and guidelines provided by the board of directors were supposed to be followed by management. Respondents indicated that there were variations between the ideal oversight relationship between the board and management and the practical one. While it is expected that the board gives direction and supervises the management in executing that direction, there are times when the management is deserted and left to grapple with difficult choices as to whether they listen to the voice of sense and integrity or play into the wishes of the board.

The researcher found that there is a deep seated suspicion between the board and management. The board and the management are out to bust and label blame on each other. Respondents indicated that a politically constituted board is more of a liability to the corporation since it serves wider interests most of which have little to do with the success of the corporation.

Respondents from the management indicated that they did not expect to work and perform without the board's oversight and facilitation. They reiterated the importance of the board as the lenses through which the public sees the corporation. Majority of respondents indicated that the facilitative role of the board has been abandoned for many years with boards coming and going without practically changing significantly the way business is conducted at the corporation in terms of effective supervision of the management.

Respondents pointed out prominent grounds for breeding conflict between the board and management. These include award of contracts for supply of materials and housing development. Another minefield for conflict is the allocation of the developed housing units. There are clear guidelines for allocation but the prominent meddling and political inclination of the board causes the simple allocation exercise to be marred with foul cries of discrimination and ethnic imbalances which often leak to the public through the same board. Procurement was also cited as a fertile ground for conflict especially where partisan interests overshadow technical feasibility and economic sense.

Respondents indicated that the board as is constituted does not comprise the technical reservoir of competencies required to supervise the corporation to success and that some of its decisions become technically untenable. When this happens, it precipitates a tug of war with the board alleging sabotage by management and the management alleging high handedness and impunity on the side of the board.

Respondents indicated that the board of directors operates through committees to supervise and audit the performance of the management and that this privilege has been abused. There are ad hoc committees constituted from time to time whose mandates are seen as dubious for they entail clearing and validating questionable deals which are influenced by political connections. Other committees appropriate themselves the power to investigate technical operations with view to exploring loopholes which can be used to advance personal gains and partisan interests. Respondents felt that these multiplicity of committees amounts to a waste of time and resources which could otherwise be deployed for the better causes.

Another point of convergence among respondents with regard to the board's oversight role was that the board's interest and that of the management are often conflicting. Respondents indicated that the management often harbors selfish interests which are incompatible with overall direction and policy of the corporation. When such interests are exposed, there is a drive to fight back by trying to bust the board and portray it as a fellowship for rubberstamping dirty deals. There is always a level of suspicion between the board and management. Respondents felt that this suspicion is healthy so that each arm keeps the other on its toes.

The researcher found that the ineffective oversight role of the board on the management emanated from the lack of clear and objective appraisal of the board's performance. There are no clear performance targets attributed to each of the board members and this means they are collectively responsible for the corporation's performance. This means that it is difficult for any one board member to take responsibility over any failure since all are collectively blamed. Board members do not sign performance contracts and this means it is technically impossible to hold them accountable for the performance of the corporation. The management however signs a performance contract with the Ministry of Housing and is expected to deliver on the items committed. This precipitates another tug of war. The ministry and the board have different expectations and use different yardsticks to measure performance. Respondents indicated that though the management may be interested in safeguarding the corporation's investment, the board often has very diversionary view on profitability and would rather have its interests first.

4.3 Discussion

Discussion of the findings of the study is presented in two categories. These categories are a comparison with theory and other studies as presented in the earlier chapters.

4.3.1 Comparison with theory

The researcher found that board of directors at National Housing Corporation plays four critical roles in corporate governance. These roles include policy making, strategy formulation, leadership and oversight on management. This finding identifies with Tricker (2009) who noted that boards of directors play four major roles which include strategy formulation, policy making, accountability and supervision of the executive activities of the management.

The researcher noted that the board's role of policy making and strategy formulation remains ambiguous due to the lack of endowment of the board of directors with relevant professional and technical competencies which are need for operational efficiency and decision making. This agrees with Clarke (2007) and Charan (2005) who both noted that boards of directors are often constituted from among persons who do not necessarily understand the core mandate and business strategies of the corporate entity. This also tallies with Thomsen (2009) who argued that the board of directors is largely viewed as an assembly of persons of varied backgrounds nursing egoistic and eccentric interests and who use the entities they manage as means of gratifying their egos.

The researcher found that although the board of directors is expected to play a leading role in ensuring transparency and accountability in leadership, there are many dark areas between the management and board. There are some levels of information which remain guarded secrets of the board a situation which breeds suspicion and conflict between the two arms. This is in agreement with Hamilton (2006) who noted that the whole question of transparency remained a convoluted syndicate which the board cannot willingly straighten.

4.3.2 Comparison with other studies

The researcher found that the role of board of directors in corporate governance at the National Housing Corporation overlaps in many areas with that of the management.

These overlaps cause conflict which in turn presents the board as an undesired burden in the eyes of the management and technical staff. This finding agrees with Ogola (2009) who argued that in many organizations the board is seen the decay from within and the major cause of inefficiency and failure of corporate entities.

The researcher also found that the board of directors at National Housing Corporation was firmly in control of the daily operations of the entity although it is expected to play a helicopter role in setting policy and leaving the executive arm to implement and report to it accordingly. This finding tallies with the studies of Mulinge (2007), Musyoki (2006), Gathika (2006) and Wachira (2004) who found that boards of directors differ from organization to organization with regard to the approach to corporate governance.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter carries the summary of findings and also presents the conclusion made from the study. It also elaborates the recommendations and limitations of the study.

5.2 Summary of findings

Boards of directors are critical organs of corporate entities whose role cannot be wished away. The meaning and importance of corporate governance is well understood by respondents although its underlying principles are yet to be widely embraced in the Corporation. This tallies with the assertions of Tricker (2009) who noted that the pivotal principles of corporate governance are yet to gather the requisite momentum to propel corporate entities beyond the recent collapses and failures.

The board of directors at national Housing Corporation plays four critical roles which include policy development, strategy formulation, provision of leadership and oversight on management. There are however several factors which hamper the objective performance of these roles in corporate governance.

The board's oversight role on management is weakened by the nature and composition of the board. The board is constituted from among persons of diverse academic and professional backgrounds which do not necessarily advantage them in matters of housing. This presents grounds for conflicts of interest and is worsened by the fact that there is no clear mechanism in place for appraising the performance of the board of directors. This supports the findings of Charan (2006) and Hilmer (1993) who insisted that appraisal for the performance of board of directors should be very clear with measurable targets and not a cosmetic process of validating the actions of less competent and technically weak persons.

The board’s policy making role has also not been effective due to the fact that the board lacks professional and technical capacity to understand the trends in the housing sector and market. Most of the policies driving the Corporation have been developed by the management and sanctioned by the board although its ability to objectively scrutinize the policies is below expectation. The board of directors lacks technical capacity to unearth subtle tricks embodied in some of the highly technical decisions. This means that the board cannot reliably solve some of the problems caused by wanting technical decisions. This finding agrees with Lorch and McIver (1989) who noted that when board of directors delegates decision making powers to the management, such management cannot make decisions which curtail its laxity. Hilmer (1993) also correctly noted that management applies delegated powers to make decisions which do not hurt its interests in the entity’s operations.

The board of directors has played the leadership role at the corporation although there have been undesirable issues of integrity and motivation. Transparency and accountability of the board have been grey areas but there were efforts to harmonize the operations of the board of directors with those of the management so as to bolster employee participation and motivation as well as cultivate an organizational culture of ethics and performance.

Strategy formulation which is one of the board's keys roles has been largely performed by management with the board sanctioning the strategies and following up on implementation. This scenario presented various challenges among them the board's inability to identify fundamental technical flaws embodied in the strategies developed by technocrats.

5.3 Conclusion

The role of the board of directors at National Housing Corporation remains more theoretical than practical in many ways. The role of policy making and strategy formulation cannot be executed effectively by a board composed of non professional members. A non technical and professionally irrelevant board remains a threat to the success of the Corporation. The composition of the board does not fairly reflect the competencies and vibrancy required to steer the Corporation to its corporate destiny.

The representatives appointed to the board by stakeholder Ministries are expected to input expert guidance and facilitation towards achievement of the Corporation's goals. These representatives are most of the times administrators who lack the requisite technical expertise in the built environment and end up just filling the board positions. These representatives also come with heavy inclination to public administration and procedure which is too bureaucratic for speedy delivery of housing development and as such make the board an impediment to the success of the Corporation.

Although the board of directors is initially oriented and extensively inducted on matters of corporate governance, this kind of induction is not enough for the board members to understand and appreciate the importance of corporate governance in the daily running of the Corporation. Comprehensive programs which are inbuilt in the tenure of the board would go a long way in shaping and focusing the energies of the board in matters of integrity and performance of the entity.

There is no clear boundary between the responsibilities of the management and those of the board except in records. This has led to uncalled for meddling into the affairs of both the board of directors and management equally. This meddling causes wrangling which translates into holding back by either arms leading to loss of business and bad public image.

The findings of this study agree with the various theoretical propositions which indicate that the role of the board of directors in corporate governance remains largely unexplored. Although the board is critical in propelling the corporate entity in to its destiny, the specific role that it plays in ensuring good corporate governance needs to be enhanced and clarified for practice.

5.4 Limitations of the study

This study was carried out at National Housing Corporation, a parastatal under the Ministry of Housing and was not an investigation. Its findings and conclusion were drawn from responses tendered by members of the board of directors, senior management staff and technical officers.

The views sought were limited to the role that the board of directors plays in corporate governance in the Corporation and not the general responsibilities that the board has over the Corporation. Only the roles that have a bearing on corporate governance were interrogated and analyzed for the purposes of this study.

5.5 Implication of the study

Boards of directors should be composed of qualified and experienced professionals in the relevant fields so as to boost the connectivity between management and board of directors with regard to the core business and mandate.

Appointments to the board should be competitive, transparent and meritorious. This will reduce the unhealthy allegiance and blind loyalty tendered to appointing authorities as a gesture of appreciation at the advantage of the core business. Clear and professional criteria should be developed for recruitment of board of directors.

Structures should be developed to clearly cut out the responsibilities of the board of directors from those of the management. Clear boundaries with regard to delegated powers should be drawn and made known to both the board and management to ease the tension and suspicion inherent in their working relationship.

Like the managing director, board members should be subjected to performance contracting and objective appraisal so as to lay ground for the determination of their participation in the success or failure of the entity. These appraisals should be used to set remuneration and other rewards as a way of encouraging constructive and professional participation by board members.

5.6 Suggestions for further research

This research should be replicated in the private sector and other public organizations so that its findings can be tested for consistency and generalization. More research should be devoted to the relevance of the board of directors in the management of today's corporate entity and the sources of conflict between the board and management.

Further research should be carried out to determine the relationship between the nature, size and composition of board of directors and performance of the public organizations. This would be geared towards finding out whether a generic structure and composition matrix could be developed for adoption across all public entities.

REFERENCES

Anand, S. (2007). *Essentials of corporate governance.* Hoboken, NJ: Wiley.

Atieno, Y. A (2007). *Corporate governance problems facing Kenyan parastatals; a case study of the sugar industry.* Unpublished MLB thesis, Bucerius law school, WHU University, Germany.

Bainbridge, S. (2008). *The new corporate governance in theory and practice.* Oxford University press inc: New York.

Berle, A. A & Means G. (1932). *The morden corporation and private property.* Harcourt, New York.

Cadbury, S. A. (2002). *The Financial aspects of corporate governance;A report of the committee on corporate governance.* Gee & Co., London.

Carter, C. (2004). *Back to the Drawing board: Designing Corporate boards for a complex world.* Harvard Business school: Boston

Charan, R. (2005). *Boards that deliver: Advancing corporate governance from compliance to competitive advantage.* Jossey- Bass, Sanfrancisco.

Cheffins, B. R. (2011). *The history of US corporate governance.* Edward Edgar publishing Ltd: New York.

Chew, D & Gillan S (2005). *Corporate governance at the crossroads: A book of readings.* MacGraw Hill: Boston

Clarke, T. (2004). *Theories of corporate Governance.* Routledge: New York

Clarke, T. (2004). *Theories of corporate governance: The philosophical foundations of corporate governance.* Routledge: New York

Coffee, J. (2006). *The professions and corporate governance.* Oxford: Oxford University Press.

Cornforth, C. (2003). *The governance of public and non-profit organisations: what do boards do?* London: Routledge.

Cooper D.R & Schindler P.S. (2006). *Business research methods* (9th ed.). New Delhi: McGraw-Hill companies Inc.

Eisenhardt, Kathleen M. (1989). Building theories from case study research. *Academy of Management Review, 14*(4), 532-550.

Gathika, L. K. (2006). *Corporate governance practises of the board of directors at the Kenya Roads board.* Unpublished MBA project, School of business, University of Nairobi.

Hamel, J. (1993). *Case study methods.* Newbury Park, CA: Sage.

Hamilton, S & Micklethwait A. (2006). *Greed and corporate failure; Lessons from recent disasters.* Pelgrave Mcmillan, New York.

Hilmer, F. G. (1993). *Strictly boardroom:Improving Governance to enhance company performance.* Melbourne: Information Australia.

Jensen, M & Meckling, W. (1976). *Can the corporation survive?* Rochester, MN: Centre for research in government policy and business, University of Rochester, May.

Kakabadse, A & Nada (2007). *Leading the board.* London: Palgrave Macmillan.

Kothari, R. (2004). *Research methodology methods and techniques* (Second ed.). New Delhi: New age international.

LeBlanc, R.& Gillies James (2005). *Inside the Boardroom.* Canada: Wiley.

Lipton, M. (2007). *Some Thought for Boards of directors.* Nwe York: Watchell.

Lorsch, J. & McIver E (1989). *Pawns or Potentates: The reality of America's Corporate boards.* Boston: Harvard Business School.

Lowery, K. (2008). *Corporate Governance in the 21st century*.New York: Nova science publishers.

Macey, J. R. (2008). *Corporate governance: promises kept, promises broken.* Princeton University Press:New Jersey.

Millstein, I. (1981). *The limits of corporate power: Existing constraints on the exercise of corporate descretion.* New York: Collier- Macmillan.

Monks, R. (2008). *Corpocracy: How CEOs and the business roundtable Hijacked the world's greatest wealth machine, and how to get it back.* Chichester: Wiley.

Mugenda, O. (2003). *Research methods.* Nairobi: Acts press.

Mulinge, W. D. (2007). *Corporate governance in the public sector: The case of National Hospital Insurance Fund.* Unpublished MBA project, School of business, University of Nairobi.

Musyoki, J. W. (2006). *Corporate governance practices of state corporations in Kenya.* Unpublished MBA project, School of business, University of Nairobi.

Ogola, J. J. (2010). *Company law* (3rd Edition ed.). Focus publishers Ltd:Nairobi.

Pacces, A.M. (2010). *The law and economics of corporate governance: Changing perspectives.* Edward Edgar publishing Ltd: New York.

Republic of Kenya (1987). *The state corporations Act.* Chapter 446

Republic of Kenya (1967). *The Housing Act.* Chapter 117

Republic of Kenya (12005). *The privatization Act.* Chapter 485

Republic of Kenya (2005). *Development of micro and small enterprises for wealth and employment creation for poverty eradication*. Sessional paper 2.

Republic of Kenya (2005). *Kenya National assembly African socialism and its application to planning in Kenya*. Sessional paper 10.

Roe, M. (2003). *Political determinants of corporate governance.* Oxford: Oxford University Press.

Sala, L. J. (2011). *Corporate governance practices at the Kenya National Library Service.* Unpublished MBA project, School of business, University of Nairobi.

Sarra, J. (2003). *Corporate governence in global capital markets.* UBC press: Vancouver.

Solomon, J. (2004). *Corporate governance and accountability.* Chichester: wiley.

Spira, L. F. (2002). *The Audit Committee: Performing corporate governance.* Boston: Kluwer.

Stiles, P & Taylor B. (2001) *Boards at work: How directors view their roles and responsibilities.* Oxford: Oxford university press.

Steinberg, R. (2000). *Corporate governance and the board: What works best.* London: Internal Auditors Reseach Foundation.

Thomsen, S. (2008). *Introduction to Corporate governance.* Copenhagen: DJOF publishing.

Tirole, J. (1996). *The Theory of corporate finance.* Princeton: Princeton University Press.

Tricker, B. (2009). *Corporate governance; principles, policies and practices.* oxford university press inc.:New York.

Wachira, R. W. (2004). *The responses of state owned enterprises to corporate governance reforms in Kenya.* Unpublished MBA project, School of business, University of Nairobi.

Yin, R. (1994). *Case study research: Design and methods* (2nd ed.). Beverly Hills, CA: Sage Publishing.

APPENDIX I

INTERVIEW GUIDE FOR TOP MANAGERS AND TECHNICAL STAFF

PART ONE:

BACKGROUND OF THE STUDY

1. What in your view is corporate governance?
2. Is good corporate governance achievable in public Corporations?
3. Do you know of any indicators for an institution that has good corporate governance?
4. Do you think corporate governance is critical in the overall performance of an entity?
5. How would you describe the performance of the National Housing Corporation since its inception?
6. What would you say about the exercise of power in the corporation?

PART TWO:

RESEARCH PROBLEM

1. How many board members are there in the Corporation?
2. Do you know how board members are appointed to join the Corporation?
3. Who generates the policy and strategy for the Corporation?
4. In your own opinion, what are the particular roles that the board plays towards corporate governance?
5. Would you classify the board of directors as a burden or an advantage to the success of the Corporation and why?
6. How are board decisions communicated to the top management and technical staff in the Corporation?

7. In your own assessment, would this Corporation function without a board?
8. Is there performance appraisal for members of the board?
9. Given opportunity, would you recommend any changes in the board structure and mandate?
10. What would you say are the disadvantages of having a board of directors?
11. Could you discuss any challenges facing the corporation with regard to delivery of its mandate?
12. Do you think the board of directors has any role in causing or easing these challenges?
13. Would you say there are grounds for conflict between management and board of directors?
14. Do you think the directors really merit the payments they receive?
15. How long has the current board served?

APPENDIX II

INTERVIEW GUIDE FOR MANAGING DIRECTOR, COMPANY SECRETARY AND BOARD MEMBERS

PART ONE:

BACKGROUND OF THE STUDY

1. What in your view is corporate governance?
2. What would you say are the pillars of good corporate governance?
3. Do you know of any indicators for an institution that practices good corporate governance?
4. Do you think corporate governance is critical in the overall performance of an entity?
5. How would you describe the performance of the National Housing Corporation?
6. What would you say has been the role of the board in the performance described in number five above?
7. How does the board exercise its control over the corporation?

PART TWO:

RESEARCH PROBLEM

1. How long have you been in the corporation?
2. What would you say about meritocracy and board appointments?
3. Who generates the policy and strategy for the Corporation and how do you normally participate?
4. Are there mechanisms in place to ensure that the policies developed by the board are fully implemented? Are there deviations in implementation?
5. Are board decisions practically final in the corporation?

6. How are such decisions communicated to the top management and technical staff in the Corporation?
7. In your own assessment, what are the most critical functions of the board of directors?
8. Is there performance appraisal for members of the board? What are the performance indicators?
9. What would you say are the advantages of having a board of directors?
10. Have there been any challenges facing the Corporation that have affected its performance in the recent past?
11. Do you think the board of directors has any role in causing or easing these challenges?
12. What would you say are the sources of conflict between management and board of directors?

APPENDIX IV

LETTER OF INTRODUCTION

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 9th July 2012

TO WHOM IT MAY CONCERN

The bearer of this letter MULINGE KIMUYU

Registration No. D61/76583/2009

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

UNIVERSITY OF NAIROBI
10 JUL 2012
MBA OFFICE
P.O. Box 30197 – 00100, NAIROBI

IMMACULATE OMANO
MBA ADMINISTRATOR
MBA OFFICE, AMBANK HOUSE

APPENDIX V

LETTER OF REQUEST FOR INTERVIEWS

9th July 2012

Mulinge Kimuyu
P o box 5803 00200
NAIROBI

Managing Director
National Housing Corporation
NHC House
NAIROBI

RE: MBA RESEACH PROJECT

I am concluding my MBA program at the University of Nairobi (see attached letter of introduction).

My research proposal titled ‘Role of board of directors in corporate governance at the National Housing Corporation, Kenya’ was successfully defended and cleared by the University for the purposes of proceeding to collect and analyze supporting data.

This is to therefore humbly request for scheduled interviews of not more than 15 minutes each with board members, senior management and technical staff on the subject of research.

I will appreciate any assistance accorded to me to complete the study.

Kind regards

Mulinge Kimuyu
Reg. No. D61/76583/2009